

REVIEW OF THE EXPORT ENHANCEMENT PROGRAM

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
WHEAT, SOYBEANS, AND FEED GRAINS
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIRST CONGRESS
FIRST SESSION

APRIL 27 AND JULY 31, 1989

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¹ Resigned from Congress, June 15, 1989.

² Resigned from subcommittee, May 11, 1989.

³ Appointed to subcommittee, May 11, 1989.

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REVIEW OF THE EXPORT ENHANCEMENT PROGRAM

THURSDAY, APRIL 27, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1302, Longworth House Office Building, Hon. Dan Glickman (chairman of the subcommittee) presiding.

Present: Representatives Johnson, English, Volkmer, Penny, Nagle, Sarpalius, Jontz, Marlenee, Roberts, Emerson, Smith, and Grandy.

Staff present: Bert R. Peña, staff director, Daniel E. Brinza, counsel; Vernie Hubert, associate counsel; Joseph Muldoon, assistant counsel; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Alice Devine, minority associate counsel; Glenda L. Temple and Grace McGovern, clerks; Greg Frazier, Anne Keys, Anita R. Brown, Thomas H. Lederer, Howard Conley, and Cliff Humphrey.

OPENING STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Good morning. I want to thank Mr. Crowder, Under Secretary for International Affairs and Commodity Programs. We are delighted to have you here.

Since enactment of the 1985 Food Security Act, few agriculture programs have attracted attention, controversy, and support the way the Export Enhancement Program has. The reaction last week when a senior Department of Agriculture official suggested that an internal administration review of the program had effectively put it on hold is ample evidence. It was that statement and, in my view, the unclear statements from other administration officials attempting to clarify the status of the program which prompted me to call this morning's hearing.

I have several immediate concerns about last week's events. One, the administration, including the President, has been very vocal in its public support of the EEP, so much so that various USDA officials have been before congressional committees asking Congress to increase funding for the EEP so it could be used more vigorously. To learn that other officials in the administration had put an effective hold on the program raises questions about exactly what the

policy of this administration is with respect to this very important and critical program.

Moreover, for the administration to have a public policy consistent with congressional intent but to learn that the public policy may be no more than veneer and that the real policy being developed within the bowels of the Budget Office is at direct odds with these public statements should raise real concerns among my colleagues about whether this administration will follow the policies the Congress passes.

This morning, I want to explore these questions and try to get to the bottom of what is going on. Quite frankly, looking back on last week's events, I think most in agriculture would acknowledge the existence of the reported controversial review by the Office of Management and Budget; it was an open secret. The only amazing thing about the statements that the program had been put on hold, in one respect, was that it was finally acknowledged openly.

That is one aspect which troubles me very much and which this subcommittee has reviewed in the past. That is, this program, in particular, has vested enormous power in the hands of a very small circle of Government officials. That is not the way we generally do business in this country. If we continue to follow along that path, we have to be ready for the consequences—the million-dollar market moves based on statements of inside officials, as we saw last week. We also have to accept the consequences of decisions made by a small circle of officials, such as what may flow from some of our best customers not being granted subsidies to buy needed food, and in this regard I am referring to reports that the Soviet Union has been rebuffed in recent attempts to purchase U.S. wheat in recent weeks as a result of this OMB review.

While the EEP is the present lightning rod, the larger issue of export subsidies is not a new one. In fact, export subsidies, especially for wheat, is the historic norm since the end of World War II. I think this subcommittee has to be very seriously thinking about the implications of that policy. If the administration is successful in its goals during the current round of multilateral trade negotiations, doing away permanently with the EEP, will have far-reaching implications on domestic agriculture. I hope we can begin that review process with today's hearings.

Finally, in calling this hearing, the ranking minority member and I requested OMB to testify. That agency refused. Mr. Darman had a conflict with his schedule and no other officials in a position to testify have yet been confirmed by the Senate. And I would ask that the letter Mr. Marlenee and I wrote to OMB Director Darman and OMB's reply be included in the record. I think, obviously, that their role in this issue is critical to our examination of the EEP. I would suggest to members of the subcommittee the following options: one, we can forego hearing from OMB at all; two, we can request and subpoena, if necessary, OMB to testify; or three, we can send a follow-up letter to OMB Director Darman with our questions about OMB's role in the EEP suspension and make the questions and answers part of the record of these proceedings. I am inclined to recommend option No. 3. However, it may be that having personal testimony here is more relevant to actually what we are doing. I think it is important for us to get the information and I

think that's more important than to spark a confrontation; however, if that information is not forthcoming, I would, with the counsel of Mr. Marlenee, not shy away from going the route of a subpoena. [The material follows:]

Room 1301, Langbert House Office Building

Washington, DC 20515

April 19, 1989

The Honorable Richard Darman, Director
Office of Management and Budget
Old Executive Office Building
Washington, D. C. 20503

DEAR MR. DAYMAN:

On Thursday, April 27, 1989, at 10:00 a.m. in Room 1302 of the Longworth House Office Building, the Wheat, Soybeans, and Feed Grains Subcommittee will hold a public hearing to review the status of the Export Enhancement Program.

We are writing to request that the Office of Management and Budget provide a witness to testify at that hearing, preferably the agency's Associate Director for Natural Resources, Energy, and Science or someone else equally familiar with the KEP and in a position to testify on the Administration's policy with respect to the KEP.

Recent news reports and announcements by officials with the Administration have prompted us to call for this hearing at this time and to request OMB's participation. It is our understanding that OMB has initiated or is coordinating an interagency review of the program. The findings of this review are critical to this Subcommittee's on-going assessment of the program and export programs generally. In addition to the Subcommittee's oversight of the program in preparation for writing the next omnibus farm bill, the funding level of the EEP may be a factor in the Subcommittee's considerations on the fiscal year 1990 budget.

On that latter point, we are especially interested in exploring at this hearing the Administration's plans for funding the EEP. In view of repeated public statements from various Administration officials that the Administration would prefer to see the current limitation on EEP spending lifted or removed altogether, recent reports that the internal, interagency review noted above may come to a different conclusion or that Administration officials have privately put a de facto hold on new activity in the EEP concern us very much.

The Administration is sending mixed, confusing, and contradictory signals on the future of the program. For example,

[illegible]

The Honorable Richard Darman
April 19, 1989
Page Two

the wheat market reacted violently yesterday after several news services carried stories that the Administration had privately put future EEP offers in abeyance awaiting the results of the interagency policy review, contrary to past public statements about the program.

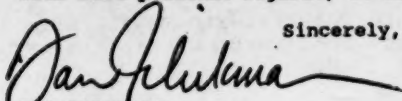
We hope that the Subcommittee's hearing next week will clarify the precise policy on EEP in all agencies within the Administration. It is critical that the Administration speak with one voice on a program whose operation has such far-reaching ramifications.

In addition to extending this invitation to you, we have asked a representative of the Department of Agriculture to testify and expect a limited number of public witnesses. Rules of the Committee request that witnesses provide seventy-five copies of their statements to the Committee forty-eight hours in advance of hearings. Your cooperation with this rule will enable us to prepare for a successful hearing and will be most appreciated.

If you or your staff have any questions about this request or if we can do anything to facilitate OMB's participation, your staff should consult with Greg Frazier at 225-1494.

With best personal regards, we are

Sincerely,



DAN GLICKMAN
Chairman



RON MARLENEE
Ranking Member

/91



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

APR 25 1969

ASSOCIATE DIRECTOR
FOR LEGISLATIVE AFFAIRS

Honorable Dan Glickman
Chairman
Subcommittee on Wheat, Soybeans, and Feed Grains
Committee on Agriculture
1301 Longworth House Office Building
Washington D.C. 20515

Dear Mr. Chairman:

Thank you for inviting the Director to testify before your Subcommittee on April 27th. Unfortunately the Director has a previous obligation and cannot testify. Under normal circumstances the Deputy Director would be available to testify. However, the President's nominee for that position has not been confirmed.

As I discussed at length this afternoon with Greg Frazier, there is no other Senate confirmed OMB representative who could testify.

We will be glad to work with you to resolve any questions that you or the Subcommittee may have concerning issues under the Subcommittee's purview.

Again, thank you for inviting the Director to testify and we look forward to working together in the future.

Sincerely,

Thomas A. Scully
Associate Director for
Legislative Affairs

c Honorable Ron Marlenee

Mr. GLICKMAN. I know that other members have statements and I have several questions to explore, but now I would like to yield to my ranking minority member, Mr. Marlenec.

**OPENING STATEMENT OF HON. RON MARLENEE, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA**

Mr. MARLENEE. I thank the chairman for yielding. The first thing I would like to say is that let there be no mistake about it this committee, the chairman, and I intend to get to the bottom of this question as to who is calling the shots down at the Department of Agriculture and the administration, the OMB or the Department of Agriculture, the Secretary of Agriculture or the President.

I agree with Dan. I intend to move at the appropriate time that we subpoena OMB. I note that they are missing from the witness list.

I want to thank you, Mr. Chairman, for holding these hearings. We have got to investigate this matter—despite assurances to the contrary by President Bush, Agriculture Secretary Yeutter, and other administration officials—the Export Enhancement Program has been “frozen” or delayed by officials at the Office of Management and Budget, and that there is an intent to either cancel the program entirely or to adopt a much less vigorous use of the program in the future. I am absolutely outraged that the Secretary would come before this subcommittee and suggest that the current \$770 million ceiling on EEP should be raised to \$1 billion, only to accidentally find out 3 weeks later that the OMB “bean-counters” had in effect frozen the program.

We requested that Mr. Darman, the Director at OMB, provide us with a witness for this hearing to help explain the situation, and to perhaps shed some light on just exactly why OMB has chosen a course of action which should be highly embarrassing to the President, which leaves the Secretary of Agriculture looking rather foolish, and which compromises the future relations between the administration and the members of this committee. We would like that relationship to get off on a good start, and I hope today we can do that. As you know, Mr. Chairman, the Director of OMB declined to appear or to have anyone else from OMB appear to help us straighten this mess up.

We are also aware that Dr. Crowder, who is our newly confirmed Under Secretary for International Affairs and Commodity Programs at USDA, is probably as much in the dark about this sequence of events as are the rest of us, and I suspect that he feels as uncomfortable and embarrassed about the situation as we feel. With the appearance today, I would like to have you consider the following sequence of events: one, April 18 the Foreign Agricultural Service Administrator, Tom Kay told the Secretary of Agriculture and the subcommittee that the OMB has told the USDA not to submit any new EEP initiatives for approval and get a budget review by OMB. Two, Secretary Yeutter then tried to downplay his elevations by saying that USDA was not suspending EEP; it was going slower due to drought conditions.

I welcome Dr. Crowder today despite the circumstances, and I hope that we can make some progress toward resolving the issue of the future of the Export Enhancement Program.

I do think, Mr. Chairman, that we are going to have to take additional actions immediately if we are going to get to the bottom of this mess. The recent series of events leaves me wondering "who is really in charge of USDA and of policy decisions at the White House?" They leave me wondering who is telling us the truth, and conversely who is lying and covering-up. It is a dismal situation which leaves a very unpleasant taste in my mouth, and I fear that, when we finish here today, we will not be much closer to finding the truth of the situation than we are as we begin the hearing.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you. Mr. Roberts.

**OPENING STATEMENT OF HON. PAT ROBERTS, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS**

Mr. ROBERTS. Thank you, Mr. Chairman. I want to say at the outset that I share the concern of the chairman and my ranking minority member, my friend and colleague from Montana, and I think what we need is an export policy that is consistent and predictable.

I want to take this time to say that we have a distinguished panel and more especially to welcome to the subcommittee the Honorable Richard Crowder. Welcome to what may be referred to as our own Chowder-and-Marching Society, if you will pardon that terrible pun. [Laughter.]

Usually, in Dodge City from where I come, we extend a welcome about like they do out in Montana; that is to say, you get a free shave, a handshake, and a pass out of town and, if you need a guarded escort here, I will be happy to volunteer for the first-time around, and I do so because I want to inform my colleagues that the Honorable Richard Crowder is, also, the head of the newly-appointed Drought Task Force that has been appointed down at the USDA.

I am aware and I know the chairman is acutely aware that the Secretary of Agriculture did pay a visit to Kansas about 12 or 13 days ago. The entire Kansas delegation asked for assistance in regard to haying and grazing and emergency feed assistance and some help on the failed-acre designation, some low-interest loans if that is advisable.

The Secretary, while having a difficult time in regard to personnel in terms of the time needed to enable you to "hit the ground running" so to speak, has responded. As of yesterday, announced a rather comprehensive program of assistance. I describe it as a positive first step.

The chairman and I, and others of the subcommittee, will be traveling to Kansas, Oklahoma, and Texas in May to hold further hearings to take a look at the possibility of disaster assistance.

I want to thank you for your efforts in this regard, and I wish you would relay my thanks to the Secretary, and we will continue to monitor this situation. Mr. Chairman, I have a full statement. I

don't want to take the subcommittee's time. I would ask that it be inserted in the record at this point.

Mr. GLICKMAN. It will be, without objection.

[The prepared statement of Mr. Roberts follows:]

PREPARED STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF KANSAS

I'm pleased to see such a distinguished group of witnesses here today, including a first time appearance by the Honorable Richard Crowder, the Deputy Secretary for International Affairs and Commodity Programs.

Last year we passed a trade bill that had some pretty good provisions in it for agriculture, and as I recall, a great part of that effort was intended to strengthen our position in the GATT negotiations. However, in my part of the country we believe that the best trade bill was already on the books: it's called the 1985 Farm Bill.

My farmers stuck to this commitment to see the 1985 Farm Bill all the way through to 1990—including disagreeable features like no base flexibility and the soil conservation provisions.

The continuation of the Export Enhancement Program is in jeopardy. I don't like it. We can't pretend that we are operating in a free market. The world market in agricultural goods is probably the most heavily subsidized and distorted of all the trade sectors. Without the Export Enhancement Program we would not have regained our share of the world wheat markets. Ten years ago, who would have ever guessed that the European Community would be our biggest agricultural competitor, or that in 1985 we would only have 29% share of the world market in wheat and flour. Since that time we have rebounded to a 42% share of the market, much closer to our historical share. The emergence of the Europeans as a huge exporter of wheat and flour is the result of explicit policies of subsidization, and as long as they adhere to those policies we must continue EEP—no allowances otherwise are acceptable.

In this town of budgetary smoke and mirrors, I can not understand why elements of the Administration have chosen this point in time to worry about "additionality" and "budget neutrality" with regard to EEP. Farm bill expenditures have dropped significantly since peaking at \$26 billion, but the trade distorting policies of our competitors has not and until they do we can not afford to suspend trade.

Mr. ROBERTS. I would only add that you can determine very readily the amount of blood pressure on the part of those on the subcommittee who know that, without the Export Enhancement Program, we would simply not be competitive in regard to our market share, having now climbed from about 25 percent of our market share up to 43. Somehow I don't know if we need to subpoena, indict or hang by the neck until he's dead, the Budget Director. I understand that OMB bashing is a needed and useful exercise from time to time, and we describe that agency as a four-letter word, and all of that.

Apparently, we have two staffers down there who like to define additionality or whatever. It may be, Mr. Chairman, we just need to hog-tie them and remind them of what happened to Jake Spoon when he didn't ride with the Texas Rangers in the Lonesome Dove situation.

Be that as it may, we need to get at these answers, we need a consistent export policy, and I thank the gentleman for coming before the subcommittee, and I look forward to working together.

Mr. CROWDER. Thank you.

Mr. GLICKMAN. Thank you. I would echo Mr. Roberts' remarks to the announcements yesterday. Before I recognize Mr. English, I would like to recognize in the audience today one of our distinguished former members of this committee, the Honorable Cooper Evans from Iowa, who I understand from many news reports is in

a very significant role right now himself in terms of Federal agriculture policies. So Mr. Cooper, we are delighted to welcome you here.

Mr. English.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. ENGLISH. Thank you very much, Mr. Chairman. I, too, would like to welcome Mr. Crowder here. He has spent a good deal of time in the State of Oklahoma. He went to Oklahoma State University and is very knowledgeable about that particular part of the country, and we appreciate and welcome his assistance as far as the drought situation down in that part of the Nation.

I think it helps to put things a bit in perspective. I know there is a good deal of OMB bashing. We've heard the discussion with regard to the OMB staff. The fact of the matter is there is only the Director as far as being in a policymaking position. There is only one person down there. Nobody else has been appointed. So, I think, a little bit in the Director's defense, until they have somebody they can send up here to testify, it is a little bit hard to jump all over him.

The second is this question of OMB versus the Department of Agriculture. The last I heard this was all one administration and that all these people have the responsibility of carrying out the wishes of the President of the United States, so I think we have to assume whether it comes out of OMB or the Department of Agriculture, who says what, that they are reflecting the wishes of the President.

The third is the point that the last administration, and many of the people in the Department of Agriculture were a part of that administration, never was fond of the EEP. They fought it. They didn't use it in 1986 and didn't begin to use it until 1987.

We were told at that time, and this is what puzzles me a good deal about Administrator Kay's testimony over in the Senate with regard to budgetary impact of this program, they have said all the way through that it has no budget impact, that it is in fact budget neutral because of the fact that they are using certificates.

This is grain that was already owned by the Commodity Credit Corporation, the United States Government; and, therefore, it has no budget impact. It's revenue neutral in that regard and now, suddenly, we see this thing being surfaced that somehow it is supposed to have a budget impact. I think that that is certainly a red herring.

Market share is also an issue that we have heard discussed a good deal in the past 8 years. We want to make sure we maintain market share. I don't know, and I am certainly going to be interested to hear Mr. Crowder's remarks with regard to whether this administration and this Department of Agriculture are still concerned about market share and making sure that the United States maintains a market share. Exports are something that the entire nation has focused on for some time.

Agriculture plays a very major role in that. Whether we export more or less grain is going to have a big impact with regard to the balance of trade and the aspects of the balance of trade. So I think

it has to be looked at in that regard, whether the EEP is continued or not.

Finally, I think, the question of the Gross National Product of this country. Agriculture is some 25 percent of the GNP. So it means jobs, not just grain farmers or farmers who are producing crops that are being exported, it comes down to jobs for a lot of people, not just in the country, but in urban areas.

Exporting is a big business. It's a major business, and it employs an awful lot of people. There's a good deal of talk going around about rural development. We are hopeful we will have a rural development bill. We are going to be able to do a good deal about rural development but, certainly, if in fact this country is going to make an about face as far as exports are concerned of agriculture products, then we are going to be starting much further behind than where we are today.

There is no question that we have to make sure that the export industry and that part of it that agriculture maintains continues to receive the support of the United States Government.

Mr. Chairman, I think the real question is, and maybe Mr. Crowder can enlighten us somewhat, comes down to the question of what has brought about the turn-around as far as budgetary implications of the EEP, what is the impact this will have as far as not just farmers, but the whole economy of the United States if in fact the United States decides to back off exporting its products—agriculture products—into the world market. Third is what is the real policy of the President of the United States. I'm sure that he is prepared to tell us about that today.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you very much.

Mr. Emerson.

OPENING STATEMENT OF HON. BILL EMERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. EMERSON. Thank you, Mr. Chairman. I can certainly subscribe to what has been said by my colleagues on both sides of the aisle here this morning.

The European Community in particular, in my judgment, has been very recalcitrant in its attitudes on trade issues. We are all grateful, but they have accepted in large measure an agenda that we feel is important for discussion—GATT—over the course of the next 18 months, but this is a very, very critical period for those discussions and, for us to falter in our own export policy or any declaration of intention of it at this time would be in my judgment the exact wrong message to send. Any lack of will on our part is going to be misconstrued over there and I think indeed that any lack of will on our part would be a catastrophe.

I hope that the result of these hearings will be that we can establish with great clarity our own export policy, and that there will be no misunderstanding in the European Community that they will get the message that we have every intention of bearing down and bearing down as hard as we ever have on the subjects that are at issue at GATT.

For there to be any signal from this administration that we might not take the appropriate steps to meet whatever the threat may be would be a very, very bad message to send.

I feel very strong that what's happened in the course of the last 10 days to 2 weeks in discussions that I hope have been innocently misconstrued, surely, does not represent the intent of Congress when it comes to export policy and intent.

I would hope that we would find as a result of this particular incident that we can speak with one voice, the Congress and the administration, in letting the European Community, in particular, know how very, very serious we are about the issues that are on the table and that we not send any mixed signals.

I think we all regard this as a great problem here, but it could turn out to be a great opportunity providing our act is together and that we speak with one voice.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. English.

Mr. Volkmer.

**OPENING STATEMENT OF HON. HAROLD L. VOLKMER, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI**

Mr. VOLKMER. First, I would like to commend the chairman for having these hearings. I'm not maybe quite as concerned as the gentleman from Montana about OMB until I fully see what effect that has had on the EEP.

Mr. Crowder, I reread your statement twice now. I have failed to find any comment therein about the status, right now, of the proposals that are before you for the EEP in light of what OMB has said.

I would appreciate it if you would tell us exactly where those proposals stand and if they are continuing to be acted upon or if they are actually on hold. I would like to know. I think that is very important to us. I think that would help maybe the situation some here today.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. Volkmer.

Mr. Smith.

**OPENING STATEMENT OF HON. ROBERT F. (BOB) SMITH, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON**

Mr. SMITH. Thank you, Mr. Chairman. Timely hearings are important and, Mr. Crowder, welcome, to the "hot seat."

Mr. CROWDER. Thank you.

Mr. SMITH. Mr. Chairman and Mr. Crowder, I think, likely, the concern that we all have is simply because the Export Enhancement Program has been so successful. Along with TEA and PL-480 programs, we have scratched our way back into world markets. The threat of eliminating that tool in the face of negotiations, especially with the European Community at this time is absolutely unacceptable to all of us.

I just returned from Geneva having been there twice with our negotiating team. I felt that the short-term agreement ironed out was a good one for the short term, but I think everyone must re-

member that our Export Enhancement Program is minimal compared let's say to the European Community.

We spent \$770 million, at least that was the cap last year. The European Community spent \$11 billion in export enhancements. These tools, minimum as they are, have been very very successful for this country.

I'm really more worried about our communication between those who speak for us internationally and what we are doing here domestically. For just an example, yesterday—this is off the wire—British Agriculture Minister John MacGregor, who had met with U.S. Trade Representative Carla Hills, U.S. Agriculture Secretary Clayton Yeutter, Special Assistant to the President Cooper Evans, and congressional lawmakers said, "U.S. officials have indicated they would not use the Export Enhancement Program (EEP) to bring pressure on trade competitors in world trade talks."

This looks to me like, at least, the British Minister of Agriculture sees us in total retreat at a time when I agree with my colleagues. We ought to be on the attack, not retreating. This is no time to retreat from world trade. This is a time to be aggressive.

These are delicate negotiations, and the future of agriculture in the world is at stake and, surely, the future of agriculture in America is at stake.

So I would hope that, if you can't answer these questions, they will be forthcoming because we can't speak from three different positions, obviously, in this Government. The minute the European Community sees a crack in our armor, they are going to speed into that and try to divide us.

That was most concerning to us in Geneva that we had commodity groups, lawmakers, and the administration in lock-step, and we have been able to do that in the past, but we can't do that it seems to me if we have the administration directing one set of traffic and the Congress another because simply that division will destroy our position in world trade, and that is a sensitive part that concerns me.

After these hearings, I would hope that, if we can't get our act together, we do it promptly because I know Clayton Yeutter wants to involve us in world trade and competitively, and I know Cooper Evans does and I know you do, but it seems to me like we just do not have our act together.

I would hope these hearings will help us pinpoint the pressures that ought to be of concern and that we begin to speak with one voice again, which is essential.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you. Mr. Sarpalius.

OPENING STATEMENT OF HON. BILL SARPALIUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SARPALIUS. Mr. Chairman, I also commend you for holding these hearings today and, Mr. Crowder, we are certainly glad to have you with us.

There is not much more I can say other than echo comments that have already been said. I think we all know how important having good export markets and producing our agricultural prod-

ucts that are headed to a price where we can establish better market for our farmers.

Obviously, I would echo any support in that direction.

Mr. GLICKMAN. Thank you. Mr. Grandy.

**OPENING STATEMENT OF HON. FRED GRANDY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. GRANDY. Thank you, Mr. Chairman. I might just say, as a member of this panel who perhaps does not have as immediate a parochial interest in the Export Enhancement Program as other members, I do share some concerns about some of the institutional impediments to what our trade policy is supposed to be in agriculture. I might quote you, Mr. Crowder, at your confirmation hearing where you said, "The Export Enhancement Program is helping us to match European competition and to maintain pressure toward a solution of the subsidy problem in the GATT. We need that pressure whether world stocks are high or low."

Now I have not read your statement, but I'm not as concerned about what is in it as what's behind it. That is, I hope that you are speaking for the Department and I hope that the Department is speaking for us, in concert, when we fashion these policies.

I was a conferee on the agriculture section of the omnibus trade bill in the last Congress, and we worked very hard to keep the Export Enhancement Program alive as a viable trade tool. It would concern me greatly and does concern me that we do not have a representative from the Office of Management and Budget up here to represent their views if, indeed, they differ from those of the Department of Agriculture.

This is an institutional problem that goes far beyond the Export Enhancement Program. We are going to be impaneled to write a farm bill in the next year and, if we have to go to two sources and listen to conflicting opinions, that makes it even more difficult to deliver farm policy in a timely fashion. It obviously applies to whatever measures we take to address the drought this year as well.

So I welcome you here and do not intend to put you on the "hot seat."

Mr. Chairman, I am concerned that, even as the administration begins to form its administration and begins to put people in positions of responsibility, they still seem to feel that it is premature to answer fundamental questions about ongoing policies. I thank you for convening this hearing.

Mr. GLICKMAN. Mr. Penny.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. Thank you, Mr. Chairman. Again, we appreciate your calling this hearing.

It's a critical issue. I just came from a hearing that I chaired in the Veterans Committee where we had five agencies invited to testify. The only agency that didn't send a representative was OMB. The excuse was that either Mr. Darman or his assistant has to tes-

tify, and the assistant hasn't been confirmed by the Senate, yet. So Mr. Darman is running around and can't cover all bases.

I hope that that is a legitimate excuse instead of an evasive attempt on the part of OMB, but we really have to get this sorted out.

EEP is critical, particularly to wheat sales overseas. It has the strong support of Congress. It has been an integral part of the 1985 farm bill, and it has been our understanding all along that it is supported by the administration.

We are not happy at all with the implications of the OMB involvement in this issue, and we have to get it squared away quickly, or we are going to be sacrificing those markets to other countries, and that just doesn't make sense in terms of the future of agriculture in the United States.

Again, we thank you for being here and hope that this hearing will help us get to the bottom of this issue.

Mr. GLICKMAN. Mr. Nagle.

[No response.]

Mr. GLICKMAN. Mr. Jontz.

[No response.]

Mr. GLICKMAN. Thank you.

Mr. Crowder, it is a pleasure to have you here. Your statement will appear in the record in its entirety. You may read it or summarize as appropriate.

STATEMENT OF RICHARD CROWDER, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. CROWDER. I would like to summarize it, Mr. Chairman.

I appreciate the opportunity to appear before you and to discuss the Export Enhancement Program. I was more excited about appearing until I started to come up this morning and, after I got here, everyone kept saying "good luck." When I go to the movies or a baseball game, someone will say "have fun," but this morning it was all "good luck."

In my maiden appearance before the committee, I appreciate the opportunity to be with you, sir.

This morning, I would like to review the background, the operations, and the accomplishments of the Export Enhancement Program. This program was launched in the spring of 1985, and it has been used to accomplish three important objectives, I think: First, to challenge unfair trade practices of competitor nations; second, to increase U.S. farm product exports; and third, to encourage serious negotiations under the Uruguay Round of Multilateral Trade Negotiations.

At the outset of the program, the criteria for the export enhancement initiatives were established by a cabinet level Economic Policy Council, which has representatives from a number of departments and officers in the government.

These criteria which are still in place today stipulate that there are four:

First, sales must be directed at specific markets;

Sales must increase U.S. agricultural exports above what would have occurred in the absence of the program;

Sales must result in a net plus to the overall economy; and,

Sales must not increase budget outlays.

All proposals are reviewed first by USDA to determine if the program criteria will be satisfied. Preliminary selections must then be approved by an interagency committee. The Department of Agriculture then implements the approved initiatives.

In terms of program implementation, the mechanics such as tendering and so forth, we have tended to be flexible to accommodate variations from country to country in individual buying systems.

In the 4 years that the program has been in operation, we have announced 102 initiatives to 65 countries for 12 commodities.

To date, over \$8 billion in farm products have been sold under EEP.

In addition to business done to date, significant opportunities still remain.

While changes in macroeconomic policy and lower loan rates have helped boost U.S. agricultural exports, it is generally agreed that EEP has been a useful tool. For example, the U.S. share of the world wheat and flour market increased from 29 percent in 1985-86 marketing year to 42 percent in 1988-89.

Without the additional exports generated by the Export Enhancement Program, we would have had bigger deficiency payments, larger expenses for diverting production, higher storage costs, and less income for the entire agribusiness sector.

In addition to boosting exports, the EEP has been effectively used to counter the unfair subsidies of competitor nations, particularly the EC, and has enhanced progress in the Uruguay Round of Multilateral Trade Negotiations. We feel that the talks have been advanced by EEP and that as we negotiate over the next 20 months, the leverage of the program will continue to be important. We have no intention of slackening our resolve to compete in world markets on a continuing basis.

We manage EEP on a day-to-day basis. Both sales under existing allocations and requests for new initiatives are managed on a case-by-case basis with each proposal being prudently evaluated in light of domestic and world market conditions.

The program continues to be important in maintaining our share of world agricultural trade and in providing leverage in the Uruguay Round. Our objective in the Uruguay Round is to rid the world of trade distortions. We are prepared to end the EEP program as soon as the EC and other nations take the same step. However, we will not unilaterally eliminate the EEP and we have undertaken no obligations in the short-term measures under the Uruguay Round Midterm Agreement that will affect program management. To maintain the negotiating leverage provided by the EEP, it is important that a legislative cap not be imposed on the program.

In summary, I would emphasize that the Export Enhancement Program has achieved its objectives. It has challenged the unfair trading practices of competitor nations; it has increased U.S. farm product exports; and it has encouraged serious negotiations under the Uruguay Round of Multilateral Trade Negotiations.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

[The prepared statement of Mr. Crowder appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you. We appreciate your testimony. You have an interesting statement on page 4. You say, "We will not unilaterally eliminate the EEP, and we have undertaken no obligations in the short-term measures under the Uruguay Round Mid-term Agreement that will affect program management."

I presume by that you are saying you have made no obligations with the people we're negotiating with at the Uruguay Round; is that correct?

Mr. CROWDER. In the short-term agreement that we have in Uruguay, there are no limitations on our use of the program.

Mr. GLICKMAN. My concern is you have made an obligation with the Office of Management and Budget to do it. We haven't done it with the Europeans, but we've done it internally. I want to pressure you on this because I think it is important.

On April 19 in Yeutter's story, the following was reported: "In his first major test since assuming his post 2 months ago, Yeutter has spent the last 24 hours trying to assure farmers, grain traders, and lawmakers that he, not frugal White House budget officers, is running the Export Enhancement Program—Washington's answer to European Community subsidies."

I would ask this basic question: Is Mr. Yeutter and the Department running the program or is it some sort of consensus program where any one element within a large Federal bureaucracy has the authority to stop it?

Mr. CROWDER. Let me put that in the context of how the program operates and take you through step by step as I understand the program. First of all, as far as I'm concerned, the Department of Agriculture runs the program, but let me take you through the process.

Once an initiative is proposed to the USDA, that initiative is evaluated by the staff of the Foreign Agricultural Service. The evaluation is then sent forward to the Administrator of the Foreign Agricultural Service for his comments. They then come to my office.

I would note that in the week that I have been in the office, I have not received any initiatives.

Second, I send them back to the FAS with my comments. From there, they go to the interagency, the Trade Policy Review Group, for approval, if you will. That process is as follows:

It requires a negative vote, or an agency asks for some discussion on the proposed initiative. If we don't receive any negative comments within a specified time period, we implement the initiative. It is not something that we have to do.

Mr. GLICKMAN. What if it receives a negative vote?

Mr. CROWDER. I have not yet been involved in this, but let me tell you my understanding of it. If it receives a negative vote, it goes to the Trade Policy Review Group and, if we cannot reach a decision on it within the Trade Policy Review Group, then it goes to the Economic Policy Council, which is composed of Cabinet members, and it could be decided there.

Mr. GLICKMAN. Let's start this process again. Tell me again the first group that reviews it.

Mr. CROWDER. Trade Policy Review Group.

Mr. GLICKMAN. Who is on that group?

Mr. CROWDER. I'm going to exclude someone, but I will go through examples.

Mr. GLICKMAN. To the best of your knowledge.

Mr. CROWDER. State, Treasury, OMB, USTR, myself. There may be some others.

Mr. GLICKMAN. This is the group it goes to after USDA has received a request for an EEP sale, and you just determine internally we ought to go ahead with it?

Mr. CROWDER. That is correct.

Mr. GLICKMAN. So it goes to the Trade Policy Review Group. If they don't respond, if you hear nothing from them, then you go ahead with it?

Mr. CROWDER. We go ahead with it.

Mr. GLICKMAN. But, if there is not consensus there, then where does it go?

Mr. CROWDER. If we cannot get consensus at the Trade Policy Review Group, it goes to the Economic Policy Council.

Mr. GLICKMAN. Does not consensus mean one of these entities that you mentioned voting no? That is, can one negative vote by State or OMB stop the process at that point?

Mr. CROWDER. I do not know the answer to that, Mr. Chairman.

Mr. GLICKMAN. Go ahead. Then after Trade Policy Review Group and there's no consensus, then it goes to the Economic Policy?

Mr. CROWDER. It goes to the Economic Policy Council.

Mr. MARLENEE. Mr. Chairman?

Mr. GLICKMAN. Yes.

Mr. MARLENEE. At that point, are we to assume by the time it reaches this group, this task force, that USDA has recommended or highly recommended that the sale be made?

Mr. CROWDER. At that stage of the process, it is a proposal from the USDA for the program.

Mr. GLICKMAN. So the presumption is, you are pushing the proposal?

Mr. CROWDER. That's right.

Mr. MARLENEE. Then it goes to the task force?

Mr. CROWDER. Then it goes to the Trade Policy Review Group.

Mr. GLICKMAN. No consensus there. It goes to the Economic Policy Council?

Mr. CROWDER. Economic Policy Council.

Mr. GLICKMAN. Who is that?

Mr. CROWDER. That is a group of Cabinet members. The list there would be State, I think Treasury is there, OMB, the Council of Economic Advisers.

Mr. GLICKMAN. Is USDA in that group?

Mr. CROWDER. Agriculture is in that group, yes.

Mr. GLICKMAN. If it is not approved there, if there is no consensus there, it is just canned; right?

Mr. CROWDER. No, there is one further level of approval as I understand it, and that is that members there have the option of taking it to the President.

Mr. GLICKMAN. Do you know if any of these have been taken to the President directly?

Mr. CROWDER. No, I don't, Mr. Chairman.

Mr. GLICKMAN. I want to go back to the point. It is important for us to know how this structure works, because I don't believe it has been authorized by Congress. Some sort of an internal operation in the Department—this Government—is deciding whether to proceed with these things.

It would be useful for the committee to know exactly whether one entity can stop this or not. Our information is that a couple of these entities have voted no, and a couple of these entities have voted yes.

Specifically, I am told that for the February 27 EEP to China, OMB asked the USDA to generate it. It appears that OMB has the power to start as well as to stop EEP initiatives.

Do you know whether sales can be generated from outside the Department of Agriculture?

Mr. CROWDER. Proposals do come from outside the Department of Agriculture. Proposals can come from customers; proposals can come from the trade; proposals can come from within the Department. Proposals can come to us from a number of sources.

Mr. GLICKMAN. But it does appear to me, at least in this case, OMB was the one who apparently asked for the USDA to generate an EEP sale to China about the time the President was in China. It looks like we have a situation where they control both ends of this scheme.

Mr. CROWDER. I would not draw that conclusion based on my experience to date, Mr. Chairman.

Mr. GLICKMAN. With respect to current sales, the same Yeutter story I just quoted from said that, "The grain industry sources say the Soviet Union has asked for up to 2 million tons of EEP wheat but have been turned down. OMB has rejected numerous EEP bids lately, they said, and I would add parenthetically, not only wheat sales, vegetable oil sales and others as well."

What do you know about items that have been turned down since February 28—EEP sales that have been turned down since February 28?

Mr. CROWDER. Let me make one comment before I respond to that.

Mr. GLICKMAN. Sure.

Mr. CROWDER. With respect to your specific reference to the Soviets, we are in the midst of 2 days' consultation with them. As soon as I leave these hearings, I am going to rejoin those discussions because I'm away from them.

Now I would not like to comment on anything with respect to that specific country at this stage of the game.

Mr. GLICKMAN. Mr. Volkmer.

Mr. VOLKMER. You just said you do have a proposal, though, that is ongoing even today with the Soviet Union?

Mr. CROWDER. No, sir. I said we are in the midst of the normal semiannual consultations with respect to the long-term agreement, and we have not completed the agenda. I am not commenting on proposals at all. These are normal consultations. I do not want to

make any statements with respect to the Soviets because I do not know what the rest of the agenda discussions will be.

Mr. VOLKMER. Your agenda then now is on the LTA?

Mr. CROWDER. The agenda is on the LTA but, in the discussions, and this is my first time with them, also, I do not know what may be put on the table between now and the close of discussions. I would not like to prejudice my comments, my discussions with them, in any way with something I may say here, if that is OK with you.

Mr. VOLKMER. What I am reading in what you're telling us if you don't even want to discuss EEP and whether it is available to Russia—buys or sales to Russia—is that there must be some thought that there wouldn't be any EEP sales to Russia?

Mr. CROWDER. No, sir, I am not commenting on EEP sales to any country at this time and, particularly, I would not like to say anything with respect to the LTA or Russia at this stage of the game.

Mr. GLICKMAN. My guess is right now they are just in negotiations.

Mr. CROWDER. That's correct.

Mr. GLICKMAN. He probably prefers not to comment. I respect that. But I do know that, since February 28, there have been no EEP sales approved; is that correct.

Mr. CROWDER. That is correct.

Mr. GLICKMAN. Why not?

Mr. CROWDER. We have not sent any forward.

Mr. GLICKMAN. That's like asking me why my daughter doesn't want to go to school because she has a test today.

I want to know why haven't you sent any forward?

Mr. CROWDER. Let me give you my perception of the whole thing because there has been a lot of confusion and a lot of press about this.

There has been a request by OMB to look at the budget implications of this. My understanding is that this request was forthcoming after the Congressional Budget Office raised some questions about the budget impact during the budget appropriations time period.

I think it is appropriate, having come from the private sector and lived through budget and projects and so forth, to review budget implications. I don't think it is an unreasonable request.

That request did come forward. As has been reported in the press and, as you know, there is an internal evaluation in the Department going on in response to those requests at this time.

My conclusion from having been there for a while is that, with a lack of people in place, with a study ongoing, with the market conditions changing quite rapidly, there has been a reluctance to send proposals forward. I think that is my feeling of what is.

As the Secretary said the other day, we are under no restriction in terms of sending programs forward. If a proposal comes to me that I think is satisfactory, regardless of whether the study is ongoing or not ongoing, I have and will have no reluctance whatsoever to send proposals forward and, if I send them forward, I would be willing to argue for them in the Trade Policy Review Group or wherever else they wanted me to.

Mr. GLICKMAN. I have no more questions on this. I would just make the comment that the fact of the matter is that, since the program has been started, there has never been a 2-month hiatus where there has been no sales. So it does seem to me that there is an inhibition somewhere, an inhibition of you sending these down for review, which seems to be caused by some process that is occurring elsewhere from the Department.

That concerns the committee. I know the members may have more questions on that, but at least it is circumstantial evidence that the program has kind of been stopped. I am going to get off this line because I know that other of my colleagues may have something to say about it.

Mr. CROWDER. Let me make one comment in terms of what you just said. I think there may be an inhibition but there is not a prohibition in terms of sending things forward.

Mr. GLICKMAN. Last line of question for me if I might. I have before me a document prepared by, I think, the Department entitled, "Exporter Ranking by Awards Under the Export Enhancement Program."

[The list follows:]

1046.4

EXPORTER RANKING BY AWARDS UNDER THE EXPORT ENHANCEMENT PROGRAM 5-20-57

EXPORTER	TOTAL BONUSES AWARDED BASED ON MEAN QUANTITIES FOR ALL COMMODITIES	EXPORTER'S PERCENTAGE OF TOTAL MEAN BONUSES AWARDED
1 CARGILL INCORPORATED	\$464,700,517.08	19.2450%
2 CONTINENTAL GRAIN CO.	\$442,228,052.47	18.3143%
3 LOUIS DREYFUS CORPORATION	\$320,739,430.63	13.2830%
4 ARTER INCORPORATED	\$140,736,584.38	5.8284%
5 PEAVEY COMPANY	\$98,865,133.32	4.0944%
6 THE PILLSBURY COMPANY	\$83,059,960.46	3.4398%
7 BUNGE CORPORATION	\$73,667,042.45	3.0508%
8 GARNAC GRAIN CO., INC.	\$65,749,273.79	2.7246%
9 KICHCO GRAIN, LTD.	\$65,056,152.40	2.6942%
10 CAN USA, INC.	\$51,679,370.44	2.1402%
11 GOLD KIST, INC.	\$45,622,586.63	1.8894%
12 UNION EQUITY COOPERATIVE EXCHANGE	\$41,827,803.94	1.7322%
13 ADM MILLING CO.	\$39,489,591.28	1.6354%
14 FERRUZZI U.S.A., INC.	\$38,662,687.48	1.6012%
15 TRADIGRAIN, INC.	\$37,927,944.33	1.5707%
16 VOEST-ALPINE TRADING USA CORPORATION	\$35,606,937.56	1.4746%
17 ENTRADE INTERNATIONAL, LTD.	\$33,732,843.60	1.3970%
18 COMAGRA POULTRY COMPANY	\$29,053,566.87	1.2032%
19 TOEPPER INTERNATIONAL	\$28,687,291.79	1.1880%
20 COPROSTATES, INC.	\$27,028,675.17	1.1194%
21 MITSUBISHI INTERNATIONAL CORPORATION	\$23,707,203.93	0.9818%
22 ISMAH NEVADA, INC.	\$21,662,350.00	0.8971%
23 NICHIMEN AMERICA, INC.	\$20,590,839.85	0.8527%
24 LAND O' LAKES, INC.	\$18,380,000.00	0.7612%
25 AMERICAN MKT. SERVICES, INC. INT'L.	\$17,794,865.00	0.7370%
26 CAREY AGRI-INTERNATIONAL, INC.	\$13,625,450.00	0.5643%
27 CENTRAL STATES ENTERPRISES, INC.	\$10,690,120.83	0.4427%
28 TRADECON, INC.	\$9,437,642.88	0.3908%
29 SERVAC INTERNATIONAL	\$8,903,316.58	0.3687%
30 MARUBENI AMERICA CORPORATION	\$8,530,340.06	0.3533%
31 BARTLETT AND COMPANY	\$8,209,547.23	0.3400%
32 BALFOUR MACLAINE INTERNATIONAL, LTD.	\$8,148,363.37	0.3375%
33 INTERNATIONAL MULTIFOODS	\$7,698,381.30	0.3188%
34 NISSHO IMAI AMERICAN CORPORATION	\$6,101,855.13	0.2527%
35 HOLSTEIN-FRESIAN SERVICES, INC.	\$5,612,170.00	0.2324%
36 SUNRICE, INC.	\$4,744,960.58	0.1965%
37 GREAT WESTERN MALTING COMPANY	\$4,181,605.16	0.1732%
38 AMER, INC.	\$4,064,621.02	0.1683%
39 GRESS FOODS, INC.	\$2,790,468.00	0.1570%
40 FROEDTERT MALT CORPORATION	\$3,653,769.30	0.1513%
41 LUZZA INTERNATIONAL LIVESTOCK CORP.	\$3,645,000.00	0.1510%
42 ITALGRANI USA, INC.	\$3,271,255.49	0.1355%
43 HARVEST STATES COOPERATIVE	\$3,197,083.74	0.1324%
44 MITSUI GRAIN CORPORATION	\$3,166,571.33	0.1311%
45 PHILIPP BROTHERS, INC.	\$3,161,515.45	0.1309%
46 NATIONAL FOOD CORPORATION	\$2,914,123.14	0.1207%
47 C. ITOH AND COMPANY, (AMERICA) INC.	\$2,345,740.32	0.0971%
48 EURO-MAGHRIB, INC.	\$2,041,207.98	0.0845%
49 CEREAL FOOD PROCESSORS	\$1,984,140.00	0.0822%
50 ELDERS GRAIN, INC.	\$1,769,767.49	0.0733%
51 RAHR MALTING COMPANY	\$1,592,484.39	0.0660%

EXPORTER RANKING BY AWARDS UNDER THE EXPORT ENHANCEMENT PROGRAM

2

EXPORTER	TOTAL BONUSES AWARDED BASED ON MEAN QUANTITIES FOR ALL COMMODITIES	EXPORTER'S PERCENTAGE OF TOTAL MEAN BONUSES AWARDED
52 T.R. INTERNATIONAL, INC.	\$1,490,325.00	0.0617%
53 WOODHOUSE DRAKE & CAREY (TRADING), INC.	\$1,276,896.45	0.0529%
54 EXODUS HOLSTEINS	\$1,275,720.00	0.0528%
55 OVERSEAS GRAIN CORPORATION	\$1,199,137.10	0.0497%
56 BROWN SWISS ENTERPRISES, INC.	\$1,019,820.00	0.0422%
57 GOLDEN GENES, INC.	\$1,014,284.00	0.0420%
58 DECOSTER EGG FARMS	\$737,984.63	0.0306%
59 FAST FOOD MERCHANDISERS, INC.	\$591,461.20	0.0245%
60 PROTINEX CORPORATION	\$462,966.00	0.0192%
61 FIRST INTERSTATE TRADING COMPANY	\$461,679.16	0.0191%
62 MINNESOTA MALTING COMPANY	\$451,916.40	0.0187%
63 KANEMATSU-GOSHO (USA), INC.	\$436,335.00	0.0181%
64 DEKKER NORTH AMERICA, INC.	\$436,000.00	0.0181%
65 DSH LIVESTOCK INTERNATIONAL, INC.	\$370,000.00	0.0153%
66 WISCONSIN HOLSTEIN SERVICES, INC.	\$185,000.00	0.0077%
67 MIDWEST LIVESTOCK PRODUCERS COOPERATIVE	\$125,520.00	0.0052%
68 CAPCROWN LIMITED	\$115,984.01	0.0048%
69 FLEISCHMANN-KURTH MALTING COMPANY	\$108,607.00	0.0045%
70 HIDDEN VILLA RANCH	\$47,700.00	0.0020%
71 F.S. INTERNATIONAL LIMITED	\$17,820.00	0.0007%
72 MCCALL SANDERS MARKETING	\$16,135.20	0.0007%
UNITED STATES EGG MARKETERS	\$15,120.00	0.0006%
NEFLER AND COMPANY	\$13,685.70	0.0006%
DOLPHIN SHIPPING AND TRADING	\$5,821.20	0.0002%
5 AJC INTERNATIONAL, INC.	\$4,050.00	0.0002%
	\$2,414,658,573.75	

Mr. GLICKMAN. Of course, the largest is Cargill, then Continental Grain, then Dreyfus, in terms of total bonuses award. Then it goes down to maybe about the 75 largest. The total bonuses awarded were about \$2.5 billion, what this document says, which I think is pretty close.

Now some of these names are companies that operate in Europe, like, Cargill, Continental, Bunge, Garnac, Ferruzzi, and then there is an awful lot of non-American based companies in there.

Do any of these companies export from Europe, and is it possible in this trade-war madness the U.S. Government is paying EEP subsidies to these companies to counter European Community subsidies at the same time the European Community is paying subsidies to the same companies to counter our subsidies? Could we be in that kind of scenario?

Mr. CROWDER. The answer is I don't think so. I don't know. But let me make a comment. I have a little trouble with your terminology that we're paying subsidies to the companies. We are not paying subsidies to the companies.

The EEP is designed to meet competition in world markets in cases where the domestic price here is above that price, and it's a differential. I do not believe that it is proper to characterize us as paying subsidies to the companies.

Mr. GLICKMAN. My final question has to do with one of the companies on this list. It is a company called Richco Grain Ltd. Are you familiar with that company?

Mr. CROWDER. No, sir, I am not.

Mr. GLICKMAN. According to this list, this company received bonuses of about \$65 million. To your knowledge, is there any connection between this company and a Marc Rich?

Mr. CROWDER. I do not know, sir.

Mr. GLICKMAN. This is a man who was indicted in 1983 on 109 counts of tax evasion, racketeering, mail and wire fraud, and conspiracy to trade with the enemy. Some of the accounts were settled in 1989, but Rich remains a fugitive in Switzerland. I am told this is the same company that this gentleman controls. I don't know if you have any information to this or not.

Mr. CROWDER. I do not.

Mr. GLICKMAN. Or whether we are still awarding bonuses. Could you check that one out for me as well.

Mr. CROWDER. I will.

Mr. GLICKMAN. I thank the indulgence of the committee for the extra time, and I would yield to Mr. Marlenee.

Mr. MARLENEE. Thank you. Dick, welcome to the committee. I didn't get to say that in my opening statement.

You are aware that George Bush has said publicly that he was going to use the Export Enhancement Program; is that correct?

Mr. CROWDER. That's correct.

Mr. MARLENEE. You are also aware that Clayton Yeutter has made similar statements?

Mr. CROWDER. I'm aware of that, yes, sir.

Mr. MARLENEE. I would like to ask you to respond to the statements that I put into the record at the end of my opening statement. On April 18, Foreign Ag Service Administration Tom Kay told the Senate Ag Appropriations Subcommittee that, "OMB has

told USDA not to submit any new EEP initiatives for approval." Is that correct or incorrect? Did he make the statement or didn't he?

Mr. CROWDER. I read the transcript and that statement was made.

Mr. MARLENEE. It was made, yes.

Mr. CROWDER. I don't know whether that was the exact quote. He said the program was in—I think his word was—abeyance; that is the word that I recall from his statement.

Mr. MARLENEE. Following that, of course, there was a public outcry and an outcry by the members of this committee, the Agriculture Committee members, the grain industry, and the producers in general.

Secretary Yeutter said that they were not suspending but going slow; is that correct?

Mr. CROWDER. Whether that is a direct quote or not, I don't recall.

Mr. MARLENEE. That was the general thrust of what he had to say?

Mr. CROWDER. Yes.

Mr. MARLENEE. Then on April 24, OMB officials after they had earlier denied that they had suspended EEP admitted that they had and had asked USDA not to seek any EEP initiatives. So they had in fact done that; is that correct?

Mr. CROWDER. That statement I have not read and had not seen in that context. I made a note of that when you wrote it down.

Mr. MARLENEE. It's unfortunate that they are not here, and I would propose that we subpoena them and put them under oath.

Yeutter said, "We are not going to put EEP on hold. OMB does not have the privilege of constraining those EEP proposals." And he claimed that he was never informed of any agreement between USDA and OMB to hold EEP initiatives pending a budget review.

Can you shed any light on that?

Mr. CROWDER. No, I cannot in terms of whether he was or wasn't at that time.

Mr. MARLENEE. Whether he was aware or was not aware of the on-hold proposal by OMB.

Mr. CROWDER. Yes.

Mr. MARLENEE. Yet, OMB, according to the information that we have, did admit that they had requested that of the Department. But the Secretary was not aware of it?

Mr. CROWDER. I do not know whether he was aware of it or not, but I'll take your statement as you read it, and then we will check with him, but those last two statements, particularly with respect to the OMB, I have not seen.

Mr. MARLENEE. I'm rapidly drawing to a close on my questions, Mr. Chairman. But I do have a question request for a comment from you, Richard, on the statement by Mr. MacGregor. He said that he did not think there was a risk that Washington would use the EEPP in an aggressive manner so as to upset the EC at the GATT.

MacGregor told Washington Agriculture Roundtable he had received assurances that the United States would not use the Export Subsidy Program to force progress at talks within the General Agreement on Tariffs and Trade.

This is taken directly from the newsclips.

Who gave him those assurances?—Mr. MacGregor, that is.

Mr. CROWDER. I saw the statement—read the same wire that you did, Congressman. I do not know the source of those assurances nor the context in which he made that statement.

Mr. MARLENEE. Or from where he drew his conclusions that we would not.

Mr. CROWDER. That is correct.

Mr. MARLENEE. But is that the intent of the Department?

Mr. CROWDER. That is not the intent of the Department. The intent of the Department is as I reflected in my statement that we have—

Mr. MARLENEE. Mr. Crowder, when the Department of Interior sends up the Under Secretary of BLM or an Assistant Secretary to testify, they have a written statement that they submit to the committee. That statement, of course, is approved—probably—by the Secretary or at least the Under Secretary speaks for the Secretary. It's also approved and run by OMB.

Was this statement that you made today subject to scrutiny and evaluation by the OMB?

Mr. CROWDER. OMB did review the statement.

Mr. MARLENEE. They reviewed your statement?

Mr. CROWDER. They did.

Mr. MARLENEE. Mr. Chairman, I would suggest—strongly suggest—that we subpoena and put under oath OMB at the appropriate time.

Mr. GLICKMAN. Thank you. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Crowder, you indicated that, while there may be inhibitions, there is not a prohibition to sending up new initiatives. One of the questions I would have would be relative to feed stocks which are in relatively high supply, such as, Durum, Spring wheat, and barley, all with relatively high-stock levels. Yet, even these have had no new initiatives now for several months.

I wonder if you would make any comment about those particular grains.

Mr. CROWDER. Two comments with the respect to the first, in the preamble to your question. My statement was that there may have been, not that there are, inhibitions in terms of sending things because, if we have proposals, we will send them forward to see what they do.

Second, with respect to specific grains, if you look at the history of the movement of grains either under EEP or under normal commercial channels, the volume relative to each other tends to change over time as a result of two things: one, the customers' desires and, two, supplies.

We respond basically to customers' needs and feel like the customers should determine what they want to buy. As you are aware, the production of Spring wheat—Durum and so forth that you referred to—we basically had a half crop last year. While I have not been involved in this process long enough to know the situation precisely, I would hypothesize that last year's half-crop has had an adverse price effect in terms of proposals coming forth particularly for Spring wheat and Durum.

Mr. JOHNSON. Much of the disagreement between USDA and OMB seems to hinge on issues of budget neutrality and additionality. I wonder if you would elaborate a little bit on the apparent disagreement between OMB and USDA on budget neutrality. How do the methods differ between those two branches of the executive?

Mr. CROWDER. Let me make one comment here. Maybe I have not gotten as excited about this as I should have or you or the press or some others have.

As I indicated, my statement was reviewed by OMB. It came back as it is with a couple corrections, adjustments they made. Second, I have had one meeting with OMB on this issue. The purpose of that meeting was to discuss the status of the study, where it is, and this type of thing.

I had no real problem with OMB at that time and, hopefully, we won't in the future. In terms of this whole thing, it is not that we don't have our act together as we have not had a team together. We have been in a transition period where it has been awfully easy for things not to move forward as well as they should have.

From a personal standpoint in the relationships in terms of one meeting and a telephone call or two, I have not seen the gap between OMB and myself. Maybe they may show up later, but it has not shown up where, I've seen in the press as I hear the frustration coming from you.

Mr. MARLENEE. Will the gentleman yield for just one clarifying question?

Mr. JOHNSON. I yield to the gentleman.

Mr. MARLENEE. At what level, Mr. Crowder, of OMB did you have the discussions? Was it with the "diaper kids" or was it with the policymakers?

Mr. CROWDER. It was with policymakers.

Mr. MARLENEE. Thank you. Could you give us a name?

Mr. CROWDER. I had met with Mr. Grady.

Mr. MARLENEE. Thank you.

Mr. JOHNSON. I would assume you would make the same kind remarks relative to the additionality regimen and that is why we are seeing some sharply conflicting signals about additionality between OMB and what we have been told in the past.

Mr. CROWDER. I am really looking forward to getting into the middle of the additionality question. As an economist, you look at this and, in essence, you are introducing an income effect or price effect into the export market. At least, my initial hypothesis would be, and it has to be proven otherwise, that, with a program like this based on sheer economics, you would have to increase exports over above what they would have been.

I don't know the basic source of that. I am really looking forward to getting into that discussion.

Mr. JOHNSON. I would hope that that would be expedited because, obviously, there are basic policy decisions to be made here, and it makes a great deal of difference whether the Export Enhancement Program has been the huge success that it has been referred to as or whether according to the ERS report that EEP can take credit for only about a third of the rise in U.S. ag exports since 1985, and there are other studies as well.

I would hope, again, we could have some unified signal from the administration on that issue sometime soon.

I have no further questions, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. Johnson. Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

I guess, fools rush in where wisemen never tread, but I do want to say for the record that here in the Congress our hindsight is always apparently 20/20 and rather selective. I can even recall some members of the once powerful House Agriculture Committee describing the EEP Program as a 900-pound gorilla and that it was a program by which the USDA could actually manipulate price and that the costs were unknown.

Now that the "bean counters" down at the OMB, to use a phrase that will live in perpetuity, have endangered the program the EEP is no longer a 900-pound gorilla. It is a fair damsel in distress on the railroad track with the OMB about to crush, that is, this poor creature.

Let's put this in perspective. You said in the first page of your statement the EEP was launched in the spring of 1985. With all due respect to that verb, that is not correct. We had to beg, we had to push, we had to shove, we had to conjoin, we had to whisper not-so-sweet nothings in the ear of Mrs. Stockman's very brilliant son. We all remember him. [Laughter.]

There was a pledged vote before the "cave of the winds," and they needed one vote to pass the budget of the United States. Senator Exon from Nebraska and, I think, Senator Mark Andrews said, "No way, David, unless you give us some kind of tool to regain our market share and to sell some grain. We have a terrible surplus." So the deal was struck.

I remember when Mr. Bedell from Iowa was the esteemed chairman of the Department Operations, Research, and Foreign Agriculture Subcommittee, and one wild and woolly Mr. Roberts from Dodge City went down to the USDA at the first meeting of the Advisory Council. We had that at that particular time an Advisory Council. They met once. They didn't like the advice. [Laughter.]

And we wanted to use this program to sell the grain. We wanted to move the grain. What we did was hang out a sign on the country elevator and we said, "Grain for sale. EEP bonus. Regular customers need not apply. We are going to use this as a selective trade-policy tool."

Now I am not going to quarrel with that today because that's about the only rationale we have for the program. Obviously, the supply-and-demand situation is much different, but it did give us pause when we were offering EEP bonus to the freedom-loving people of Iraq and ignoring our regular customers.

So we met. And then I think Tom Kay did a darn good job, and I think we moved grain, and I think we regained market share but, if anybody here on this subcommittee did not know that the administration has a great deal of flexibility in this program and has used this program as a selective trade-policy tool, I don't know where they've been for the past several years.

I would just add one other concern, along with the chairman and Mr. Marlenee. The quickest way I know to get Congress back in the act in regard to this program is to not have a consistent voice of

Mr. CROWDER. We have a series of proposals that are being evaluated and, if proposals come to my desk that merit sending forward, I will send them forward.

Mr. ENGLISH. If they come to your desk.

Mr. CROWDER. If they come to my desk.

Mr. ENGLISH. Well, who is going to decide whether they come to your desk or don't come to your desk?

Mr. CROWDER. They will come through—the proposals we made to the Department.

Mr. ENGLISH. By whom?

Mr. CROWDER. By Trade, by other governments, by customers, internally within the Department—a number of people can make proposals for the Export Enhancement Program.

Mr. ENGLISH. What you are telling me is that the reason we have not had any EEP proposals go forward is that none has come to your desk.

Mr. CROWDER. Not since I have been here; that is correct.

Mr. ENGLISH. And before you? How many since the first of the year?

Mr. CROWDER. I do not know the specific number.

Mr. ENGLISH. You haven't checked to see if there are any proposals that have been coming forward, if any proposals have been considered, any proposals that have been looked at?

Mr. CROWDER. As I indicated in my comments early on, I indicated that I thought that was because of the change in administration, the lack of people in key jobs and so forth. I would characterize it as being an inhibition to send proposals forward rather than the way it has been described, but I am not going to speak for anyone else in terms of the people that were here at the time.

Mr. ENGLISH. But, I would assume, it would be prudent of you at least to inform yourself with regard to what has going on before you. Are you telling us that you have no interest, no knowledge, no concern with regard to what may have happened before day one of your reign?

Mr. CROWDER. No, that's not what I'm saying. What I am saying is that I do not want—and I have looked at those. I do know there have been proposals that have been there, that some have not been sent forward yet.

Mr. ENGLISH. In other words, you do have proposals before you to date.

Mr. CROWDER. I do not have proposals before me. There are proposals in the agency that are in various stages of process of being evaluated.

Mr. ENGLISH. Then why have none of those proposals been sent forward?

Mr. CROWDER. Because the analysis, as far as I am concerned, have not been completed. Once they are completed and come forward to me, I will review them and decide whether they should go forward or not.

Mr. ENGLISH. Mr. Chairman, if I could make one further question, if the committee would bear with me.

The point as I said over the past 2 years—1987, 1988—the point has been made time and time again by the Department of Agriculture that, in fact, there is no budgetary impact with regard to EEP

when it comes to what we are doing. If you don't, you are going to lose the flexibility, and then this subcommittee and the full committee and Lord knows who else will get into the business of mandating the specifics. Then, of course, when that doesn't work, we'll haul you back up here, and we will blame you for that.

I would say that the quickest way to lose this flexibility and the way that you are using this program both in the GATT talks and with your negotiations with long-term prospects, say for which I applaud, would be to have this inconsistency.

That isn't a question, Dick. It is just an observation, and I yield back, Mr. Chairman.

Mr. GLICKMAN. Thank you. Mr. English, the distinguished chairman of the Conservation, Credit, and Rural Development Subcommittee.

Mr. ENGLISH. Thank you very much, Mr. Chairman. I appreciate that very much.

Is there a difference, Mr. Crowder, between the policy of the Department of Agriculture pertaining to EEP and the policy of the Office of Management and Budget?

Mr. CROWDER. I do not think so.

Mr. ENGLISH. So the assumption that is being made by members of this committee that somehow this is a struggle between the Department of Agriculture and the Office of Management and Budget are in error; is that correct?

Mr. CROWDER. As I indicated in my early comments, based on my limited discussions with OMB, I think that it is a great exaggeration in terms of where I have seen it because I have not experienced that struggle to date.

Mr. ENGLISH. And the question of the EEP being in abeyance—being in abeyance, I believe, is the word that you ascribed to Mr. Kay in his testimony—this was a policy decision then by the Department of Agriculture?

Mr. CROWDER. I'm not so sure that a policy decision was made. As I indicated earlier, I would characterize it as a reluctance on the part of the people to send proposals forward given the fact that the budget review request had been going on.

Mr. Kay's interpretation of that was that he shouldn't, and he was here at the time I wasn't. But there has been nothing in my discussions with anyone that says we are not free to send proposals that we think merit sending forward on to the Trade Policy Review Group.

Mr. ENGLISH. If the EEP is in abeyance and you seem to agree that it is in abeyance today and certainly all the evidence that we had before us would indicate that it is in abeyance, then the question comes down was this something that simply was understood by people within the Department and OMB or was there some kind of meeting and saying that, under the circumstances, we don't think we should go forward with any further contracts? How did this abeyance come about?

Mr. CROWDER. Let me make the point, first of all, that I do not personally consider the program to be in abeyance today.

Mr. ENGLISH. Well, can you tell me then why you are not going forward with any EEP proposals?

because they use certificates, and those certificates in effect represent grain that is already owned by the United States Government. It's been taken in through default in most cases.

Has the Department's position changed with regard to any question of budgetary impact?

Mr. CROWDER. No, it has not.

Mr. ENGLISH. So, according to the Department of Agriculture, there is no budget impact with the EEP; is that correct?

Mr. CROWDER. That is correct.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. CROWDER. At this stage the Department's position is that EEP is budget neutral.

Mr. NAGLE. If the gentleman would yield.

Mr. ENGLISH. I yield to the gentleman.

Mr. NAGLE. Let's take it one step further. There has been no change within the Department's attitude. What about the administration's attitude?

Mr. CROWDER. There have been questions, and this relates to the study that I indicated earlier that is ongoing right now, and that is where this whole process started was a question came up with respect to budget neutrality and additionality, and that is the evaluation that is going on right now.

Mr. NAGLE. Then, if the gentleman would yield further, if I could just take it one step further, then what you are saying is that, while the Department's position hasn't changed, it is the administration that runs the Department, and right now the budget impacts of EEP are on the table, as far as the administration is concerned?

Mr. CROWDER. No, I did not intend to say that, and I hope you won't conclude that from what I said. What I have said is that, as a result of some analysis and comments made by the Congressional Budget Office earlier this year, OMB asked for an evaluation of the EEP with respect to the issue of the budget impact, and that study is ongoing.

Until they get the answer to that question, I don't know how they, or anyone else could draw a conclusion with respect to that. The analysis that we have done over time indicates budget neutrality.

Mr. NAGLE. If I could just follow this down, I think we're arguing over semantics. You are saying that the administration is yet to formulate a position pending the review as to the budget impact of EEP, so it is on the table; isn't it?

Mr. CROWDER. No.

Mr. NAGLE. It is not on the table?

Mr. CROWDER. I'm sorry. Is what on the table?

Mr. NAGLE. The budgetary impacts of EEP as to whether the budget is neutral or not.

Mr. CROWDER. A question has been asked about the budgetary impacts of the EEP. That is correct.

Mr. NAGLE. And the answer hasn't been given?

Mr. CROWDER. The answer has not been given.

Mr. NAGLE. So it is under consideration by the administration.

Mr. CROWDER. The study is under consideration; that is correct.

Mr. ENGLISH. Is it also fair to say then that the program is in abeyance until that decision is made?

Mr. CROWDER. Again, Congressman, that is not true. The program is not in abeyance.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. English. Mr. Volkmer.

Mr. VOLKMER. Thank you, Mr. Chairman. I would like to pursue and maybe get a little more detail from Mr. Crowder about what the gentleman from Oklahoma has just alluded to.

It concerns me. You say it is not in abeyance. I see a program that you say in your statement has worked for very well; it has really accomplished ends that it's ended to meet, that we have been able to increase our export markets because of it.

I remember as others have alluded to here, back in 1985 and 1986 and then in 1987 when we couldn't get Russia on the approval list. We finally got it down, and all of those things show the hesitancy within the past administration to really use the EEP. Then I see what is happening now, and I hear you tell me that, since you have been there, you haven't got any proposals submitted to you.

I would like to ask you when was the last approval made for a sale under EEP?

Mr. CROWDER. I believe that date was February 28.

Mr. VOLKMER. February 28?

Mr. CROWDER. That's correct.

Mr. VOLKMER. How long does it normally take for a proposal to go through the process?

Mr. CROWDER. I don't know the answer to that, Congressman.

Mr. VOLKMER. I would appreciate it if you would give it to me.

Mr. CROWDER. I will. I am sure it varies from proposal to proposal, depending on what the proposal is, what commodity, what terms, what markets and so forth.

Mr. VOLKMER. Most of the proposals will come from either brokers or corporations involved in foreign sales; is that correct or incorrect?

Mr. CROWDER. Or the customers themselves.

Mr. VOLKMER. Let us say I am a broker. Whom do I go see in USDA to submit a proposal for a sale under EEP. I have a customer over here in Tunisia or in Egypt that wants to buy flour/wheat or whatever have you, and I have a sale proposal that is going to take a necessary buy-down. Now whom do I see?

Mr. CROWDER. You go to the Foreign Agricultural Service.

Mr. VOLKMER. FAS?

Mr. CROWDER. Right.

Mr. VOLKMER. Do I then submit the proposal to FAS?

Mr. CROWDER. Yes.

Mr. VOLKMER. FAS then approves that or disapproves it?

Mr. CROWDER. No, they do not approve it or disapprove it. FAS makes an analysis of the program, sends it to the Administrator, and then to me. If it is approved at each step along the way—

Mr. VOLKMER. Wait a minute. Slow down a minute. They do the analysis; they submit it to the Administrator of FAS?

Mr. CROWDER. That's correct.

Mr. VOLKMER. If he says that the analysis is correct and everything is all right, then it goes to you?

Mr. CROWDER. It comes to me.

Mr. VOLKMER. You have been on board since what date?

Mr. CROWDER. Last week. A week ago today.

Mr. VOLKMER. And was anything on your desk or in your office for a proposal from the FAS Administrator?

Mr. CROWDER. No.

Mr. VOLKMER. Mr. Chairman.

Mr. GLICKMAN. Mr. Volkmer.

Mr. VOLKMER. I'm going to request, if not in writing, that we have the Administrator of FAS up here to find out from him how many proposals have been made and what's happened to them because I think we have a short in the system here. I can't blame Mr. Crowder because Mr. Crowder can't testify what the Administrator of FAS has been doing for the last 2 or 2½ months; correct, Mr. Crowder?

Mr. CROWDER. I am not trying to push responsibility from one place to the other. I think it ought to stop with me.

Mr. VOLKMER. But you can't tell me whether or not he has any proposals sitting on his desk, can you?

Mr. CROWDER. As I indicated earlier, there are proposals that are there that are being evaluated now. I know of proposals that are being evaluated.

Mr. VOLKMER. They are being analyzed?

Mr. CROWDER. Yes.

Mr. VOLKMER. When was the first proposal submitted that is still being analyzed?

Mr. CROWDER. I do not know the answer to that.

Mr. VOLKMER. That is what I mean. If I had the Administrator up here, I could find out. They could be foot-dragging at that point. It doesn't necessarily have to be foot-dragging in your office. It could be before it gets to you.

If it never gets to you, you can honestly say you don't have any proposals to submit, and you are willing to submit all the proposals that you get. There is nothing in abeyance. You can honestly say that, but that is not necessarily true for the simple reason that FAS could be holding them up.

They could even put word out that we don't want any proposals submitted to us for a while.

Mr. CROWDER. FAS does not have those instructions at all.

Mr. VOLKMER. How do you know that?

Mr. CROWDER. Because I have been there for a week. They know that my position on the program is that, if a proposal merits going forward, we will send it forward.

Mr. VOLKMER. Mr. Chairman, I respectfully would rather have the FAS answer that question because it appears to me that, even though you say it is not in abeyance, I have reason to believe that there is no proposal being accepted for new crop wheat; yes or no? New crop; yes or no?

Mr. CROWDER. I would not want to comment this morning on proposals with respect to specific commodities, Congressman. I think, it is not appropriate to do that right now.

Mr. MARLENEE. If the gentleman would yield just briefly.

Mr. VOLKMER. Well, the thing is he says he knows what FAS is doing and not doing—he knows the policy—and, yet, he won't comment on it.

Yes, I will yield to the gentleman from Montana.

Mr. MARLENEE. I apologize for asking this question, and it displays a lack of knowledge on my part, but who has the control of FAS? Under what Department does that come?

Mr. VOLKMER. The USDA.

Mr. MARLENEE. FAS, Foreign Agricultural Service. Congress created it. We created it as a separate entity within the embassies overseas.

Mr. VOLKMER. Right.

Mr. MARLENEE. Outside of the State Department.

Mr. VOLKMER. Right.

Mr. MARLENEE. And it's under the supervision and jurisdiction of the U.S. Department of Agriculture.

Mr. VOLKMER. Correct.

Mr. MARLENEE. Under what department?

Mr. VOLKMER. They have a separate division; is that correct?

Mr. CROWDER. It has an Administrator, and the Administrator reports to me.

Mr. MARLENEE. And Tom Kay was the Administrator at one time?

Mr. CROWDER. Yes.

Mr. MARLENEE. Thank you.

Mr. VOLKMER. Mr. Chairman, I'll have to find out however you wish to handle it, but I don't think we really can really have a complete hearing until we hear from FAS on this.

Mr. GLICKMAN. I suspect there will be a follow-up hearing to this.

Mr. MARLENEE. Parliamentary inquiry.

Mr. GLICKMAN. Yes. Mr. Marlenee.

Mr. MARLENEE. Mr. Chairman, I'm not quite certain of procedure in this hearing being that this is a hearing and not a committee meeting for mark up or committee meeting for the passage of a piece of legislation. How do we proceed with a motion to subpoena? If the chairman could enlighten me or give me some enlightenment.

Mr. GLICKMAN. As I understand the rules, you have to give the notice by 5 o'clock the day before to the subcommittee. The subcommittee can issue a subpoena. I would not want to do this without getting concurrence from the chairman and ranking minority member of the full committee, however, before we do that.

What I would like to do, if possible, is to let OMB know of our immediate and urgent concern for information that we either get through personal testimony or that they respond in writing to the letter that you and I wrote them and that, if it is not forthcoming quickly and satisfactorily, then I will entertain your motion at a properly-called committee hearing to issue a subpoena to the Office of Management and Budget.

Right now, I would say let's try to get it through a cooperative spirit before we do it the other way but, if it doesn't come, then I will call a meeting. Then I think it would be appropriate for you to make the motion.

Mr. MARLENEE. Mr. Chairman, inasmuch as we submitted a letter jointly to OMB which we asked them specific questions—we asked them to appear at the hearing and that we would have hearings—and there was no appearance at the hearing nor were there any responses to any of the questions that we put in the letter, I will go along with your proposal to resubmit the additional questions that we may have, but would reserve the right, and I think we reserve the right—you and I, Mr. Chairman—to get the ranking minority member and the chairman of the committee in concurrence with us and issue a subpoena and, if necessary, put them under oath.

I thank the chairman for yielding some time at this moment on the parliamentary inquiry.

Definitely, if we have to, I think the signal should go out that we stand united on the pursuit of this issue.

Mr. GLICKMAN. I do think it is important the Office of Management and Budget not hide behind the protective cloak of somehow being different from other agencies of government. If in fact they are an equal partner or party in this trade group that meets to decide these questions, then they must be accountable to us in the same way the Department of Agriculture is.

We have been giving Mr. Crowder a good immersion into the tension between the legislative and executive branches, but at least he is here and attempting to respond to our concerns and he's new on the job, but the Office of Management and Budget cannot hide under some historic private counsel relationship with the White House.

Mr. MARLENEE. I agree with the chairman and, second, I would say that the administrators over there at OMB had better be sent a message that they should not allow that group of juveniles out there to go out wielding and making decisions and issuing proclamations that have devastating impacts on programs and proposals that were passed by Congress.

With your assurances, Mr. Chairman, and I think you are correct that we submit the questions again. I thank the chairman.

Mr. GLICKMAN. Thank you.

[The correspondence follows:]

DAN GLEICKMAN, RANKING
MEMBER

THE JOHNSON, SOUTH DAKOTA
CLARENCE DUNLAP, OREGON
MAYNARD L. VOLKMER, MISSOURI
TIMOTHY J. KUNY, MINNESOTA

DAVID B. MADALE, IOWA
WILL KOPPELMAN, TEXAS
JIM SCHMIDT, IOWA

SEN. MONTGOMERY CAMPBELL, COLORADO
ROY BYRON, MONTANA
JERRY HUCKABAY, LOUISIANA

SEN. DE LA SOTA, TEXAS
EX OFFICIO MEMBER

OPUS FRAZIER,
STAFF DIRECTOR

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Wheat, Soybeans, and
Feed Grains
Room 1301, Longworth House Office Building
Washington, DC 20515

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SEN. MONTGOMERY CAMPBELL, COLORADO

May 4, 1989

TO: Members and Staff of Subcommittee on Wheat, Soybeans and
Feed Grains

FROM: Dan Glickman

RE: Letter to OMB on the EEP's status

Because OMB couldn't testify at the April 27th hearing on the
EEP, they have agreed to answer the Subcommittee's submitted
questions. Accordingly, attached is a letter that a number of
members sent today to Mr. Darman asking him specific questions
about OMB's role in the EEP initiative process. Their answers
will be included in the hearing's record.

DAVE GLENN, TEXAS
Chairman

TIM JOHNSON, SOUTH DAKOTA
GLENN ENGELSH, CALIFORNIA
HAROLD L. VOLKMER, MISSOURI
TIMOTHY J. PERRY, MINNESOTA
DAVID R. NADL, IOWA
BILL SAMPALAN, TEXAS
JIM JONTE, PENNSYLVANIA
SEN HOUTHOOFTE CAMPBELL, COLORADO
BOY DYER, MARYLAND
JERRY HUCKABEE, LOUISIANA
S BILAL DE LA GARZA, TEXAS
EX OFFICIO MEMBER

ORIS FRAZER
STAFF DIRECTOR

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Wheat, Soybeans, and
Feed Grains

Room 1301, Longworth House Office Building
Washington, DC 20515

May 3, 1989

SEN BAILEY, MONTANA
SEN RUDOLPH WENDT, MISSOURI
ARLAW STANBOLAND, MINNESOTA
PAT ROBERTS, KANSAS
BILL DIERSON, MISSOURI
ROBERT F. BOES, SOUTH CAROLINA
BILL SCHWARTZ, MICHIGAN
FRED STANTZ, IOWA
CONRAD E. VANDERBEEK, ILLINOIS
EX OFFICIO MEMBER
CLIFF ALPHEMERY
STAFF CONSULTANT

Richard Darman, Director
Office of Management and Budget
Old Executive Office Building
Washington, D.C. 20503

Dear Mr. Darman:

Pursuant to the Subcommittee's review of the status of the Export Enhancement Program, in particular the role of the Office of Management and Budget in the program's operation, at its hearing on April 27, 1989, and the agreement reached between the staff of the Subcommittee and your staff, we are submitting the following questions for your response. This letter and your replies will become a part of the record of the Subcommittee's hearing.

1) Recent news accounts and statements from senior Administration officials lead us to conclude that the OMB has effectively suspended operations of the EEP pending internal OMB evaluations of the program and pending evaluations of the EEP underway at the Department of Agriculture at the insistence of the OMB.

Please provide the Subcommittee with a description of any communications or meetings between OMB and USDA officials, formal or informal, since January 20, 1989 relating to: a) any OMB-initiated review of the EEP and b) any request by OMB of USDA to review the EEP.

2) With respect to reports that the OMB is reviewing the EEP, please provide the Subcommittee with: a) the justification by which OMB is reviewing the program; b) the criteria which OMB is using to evaluate the EEP and c) the justification for these criteria, including any statutory authority for the establishment of such criteria.

3) Reports the Subcommittee has received about the operation of the OMB indicate that OMB representatives to the Trade Policy Review Group, which reviews EEP initiatives, have prevented the TPRG from reaching consensus on EEP initiatives since February 28, 1989.

The Honorable Richard Darman
May 3, 1989
Page Two

Further, reports indicate that OMB officials have formally and informally indicated to USDA officials with responsibility for submitting EEP initiatives to the TPRG that until the reviews of the program noted above are complete, OMB representatives will not approve EEP initiatives submitted to the TPRG.

Please provide the Subcommittee with information with respect to a) the OMB's position, and justification for those positions, on EEP initiatives submitted to the TPRG since January 20, 1989 and b) any communication, formal or informal, between the OMB and any other representatives of the TPRG, specifically the USDA, concerning whether the OMB would approve or disapprove EEP initiatives submitted to the TPRG pending the completion of reviews of the program.

4) Reports reaching the Subcommittee indicate that the OMB has also expressed its disapproval of new EEP initiatives over the last several weeks during meetings of the Economic Policy Council. Please provide the Subcommittee with a report of the OMB's position at these meetings on this subject since January 20, 1989.

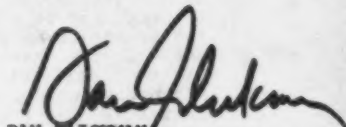
OMB's compliance with these requests will be most appreciated and will be of great assistance to the Subcommittee's ongoing review of the EEP. To facilitate this process, please provide answers to these questions to the Subcommittee no later than May 12, 1989. If your staff has any question about these requests or if the Subcommittee can facilitate OMB's reply, please have your staff consult with Greg Frazier at 225-1494.

It is our hope that you will provide a comprehensive reply to this request for information. We believe that it is in our mutual best interest to work cooperatively; however, if, in the judgment of the Subcommittee, the OMB is not responsive to this letter, we reserve the right to consider other options to obtain this information.

With best personal wishes, we are

Sincerely,


RON MARLENEE,
Ranking Member


DAN GLICKMAN,
Chairman

The Honorable Richard Darman
May 3, 1989
Page Three

Jim Jontz
JIM JONTZ

Glenn English
GLENN ENGLISH

Tim Johnson
TIM JOHNSON

Pat Roberts
PAT ROBERTS

Tim Penny
TIM PENNY

Dave Nagle
DAVE NAGLE

Harold Volkmer
HAROLD VOLKMER



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Honorable Dan Glickman
Chairman
Committee on Agriculture
Subcommittee on Wheat, Soybeans,
and Feedgrains
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of May 3, 1989. Recent news accounts have given a somewhat inaccurate picture of the role played by the Office of Management and Budget (OMB) in the review and operation of the Export Enhancement Program (EEP) and we welcome the opportunity to set the record straight.

OMB fully supports the Administration's policy towards the EEP and recognizes the role played by EEP and other 1985 Food Security Act provisions in bringing our trading partners to the negotiating table on agricultural trade in the Uruguay round of the General Agreement on Tariffs and Trade (GATT). The battle for multilateral reform of agricultural support policies is not over and the Administration remains committed to the EEP as a tool for bringing about a successful conclusion to the GATT negotiations. OMB has never contemplated ending the EEP program, and OMB has not suggested this to any other agency.

As a part of the annual budget review process, OMB reviews the EEP each year, along with other United States Department of Agriculture (USDA) programs. During the previous administration's FY 1990 budget review, OMB approved USDA's FY 1990 request for an estimated program level of \$1 billion -- a \$230 million increase above FY 1989 -- and requested that USDA carry out a study of the EEP. This study was to examine the program's performance based on the guidelines (set by the Economic Policy Council (EPC) in 1985 and published in the Federal Register) under which the program was operating. These guidelines are:

- o Additionality -- sales must increase U.S. exports above what would have occurred in the absence of the program.
- o Targeting -- sales should be targeted on specific markets, particularly where subsidized exports are competing with the U.S.
- o Cost effectiveness -- sales should result in a net benefit to the overall economy.

- o Budget neutrality -- sales should not increase budget outlays above what would have occurred in the absence of the program.

Because a Congressional Budget Office (CBO) analysis found that EEP was not budget neutral, OMB, during last fall's budget review process, asked USDA to devote a large part of the requested study to the budgetary effects of the EEP under a range of market conditions. Pursuant to Chapter 11, Title 31, United States Code, Executive Order No. 8248 of September 8, 1939, and Executive Order No. 11541 of July 1, 1970, OMB is delegated by the President with the authority to review the budget impacts of all government programs.

This study was requested in November 1988. Since January 20, 1989, USDA staff have briefed OMB staff on the progress of the study.

Individual EEP initiatives are reviewed by USDA and are then submitted to the Trade Policy Review Group (TPRG) for interagency review before they are approved. This practice, begun under the previous Administration has continued under this one. If the TPRG cannot reach a consensus on an EEP initiative, it may be referred to the EPC for further review.

On January 27, 1989, one week after the President's Inauguration, the TPRG working group met to consider an EEP initiative for wheat to Iraq. OMB and other TPRG members raised questions about the initiative's additionality, budget neutrality and cost effectiveness under increasingly tight wheat market conditions. The TPRG also felt that it was important for policy level appointees of the new Administration to review an initiative of this size before making a decision. TPRG members generally agreed that the new Administration should consider a review and possible revision of the program guidelines in light of changed market conditions. No formal written document was drafted mandating such a review.

Following the January 27th meeting, OMB adopted internally a position on the Iraq sale, and a similar upcoming initiative to China. The decision was that OMB would not oppose these two initiatives in further TPRG deliberations; but that the EPC should schedule promptly a review of the program guidelines as discussed briefly at the TPRG work group meeting. With respect to the question of scoring these sales on budget, OMB decided that judgment on the issue of budget neutrality should be deferred until completion of any EPC review of this subject. The internal OMB view was that future initiatives should be "put on hold" until the EPC review was completed, but this position was never formally communicated to USDA or any other TPRG members. In fact, it was OMB's hope that any EPC review of program guidelines could be completed quickly before new EEP initiatives were proposed.

There was never any suggestion or discussion by OMB or any other agency that sales under previously approved EEP initiatives would be interrupted or otherwise delayed -- and, in fact, no interruption or delay has taken place.

On February 23, 1989, OMB officials paid a courtesy call to the newly sworn in Secretary of Agriculture. During that meeting, many issues were discussed, including EEP. During that meeting, OMB officials stated that they would not oppose the EEP sales to Iraq and China in the TPRG, but that they believed a review of EEP guidelines should proceed immediately, following approval of these two sales. OMB and USDA officials agreed that a review should be completed as soon as possible.

On February 28, 1989, the EEP initiatives to Iraq and China were announced by USDA.

Progress toward any review of EEP guidelines and budget scoring was delayed by the potential sensitivity of the GATT Trade Negotiating Committee meetings held in Geneva from April 5th to 7th. During this period, USDA was also reluctant to pursue any EPC review until the new Under Secretary for International and Commodity Affairs was confirmed. In an effort to expedite an EPC review, OMB staff was asked to help prepare a draft options paper for the EPC. On April 14, OMB staff completed a preliminary draft of a paper on EEP targeting, planning, and budget scoring which was circulated on a very limited basis within USDA and the Executive Office of the President during the week of April 17, 1989. This draft paper, which was based in large part on an earlier internal analysis prepared by the Office of the United States Trade Representative (USTR), was never formally reviewed at the policy level and it was not forwarded to the EPC for action.

No additional EEP initiatives were proposed by USDA and submitted to the TPRG until a wheat initiative for the Union of Soviet Socialist Republics (USSR), was proposed on April 13, 1989. At a TPRG working group meeting on that date, TPRG members, including career staff members of the OMB, again questioned the USSR initiative's additionality, budget neutrality and cost effectiveness. TPRG members also raised concerns about the USSR initiative in light of the Kansas drought's potential effect on the 1989 winter wheat crop. Given the sensitivity of the USSR proposal, the TPRG working group, including OMB staff, agreed that this initiative should be reviewed by the full TPRG. The full TPRG met on April 18, 1989, and after a continued discussion of the initiative's implications for domestic wheat markets and foreign policy, referred the initiative to the EPC.

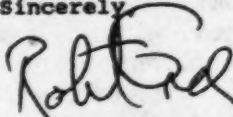
Throughout the EPC process, OMB took the position that a decision on the USSR initiative should rest primarily on other than budget grounds, and made it clear that it would not stand in the way of approval of the Soviet EEP initiative. The EPC met on April 26, 1989, to discuss the USSR initiative. After discussing

the initiative, the EPC referred the issue to the President. The President approved an EEP initiative for 1.5 million tons of wheat to the USSR on May 3, 1989.

On May 12th OMB officials met with the Under Secretary for International and Commodity Affairs and discussed -- among other things -- EEP and the progress of the study of the program's performance, guidelines, and budgetary effects. USDA informed OMB that it had completed a rough first draft of the study and hoped to make further progress on return of the Under Secretary from foreign travel.

OMB fully supports the Administration's EEP policy and will be working with USDA and other TPRG members to complete an Administration review of the EEP program's guidelines, budgetary effects, and associated issues. Thank you for the opportunity to set the record straight. If you have any further questions concerning OMB's role in the management of EEP, please let us know.

Sincerely,



Robert E. Grady
Associate Director for
Natural Resources, Energy
and Science

IDENTICAL LETTER SENT TO HONORABLE RON MARLENEE

cc: Honorable Jim Jontz
Honorable Timothy Penny
Honorable Glenn English
Honorable David R. Nagle
Honorable Tim Johnson
Honorable Harold L. Volkmer
Honorable Pat Roberts

Mr. VOLKMER. Mr. Chairman.

Mr. GLICKMAN. Yes.

Mr. VOLKMER. I would just like to mention to Mr. Crowder that it isn't my suspicion of you, sir, that concerns me and led to my line of questioning and what I recommend. It is the fact, as it has been said earlier, that, when we started this program in 1985, it was held for a year in abeyance by the administration at that time because they really didn't like the program. We had problems with it all the way through. Now, as some of us see, it may be a reinstatement of that policy that was back there in 1985. That is what concerns us and what OMB is saying. Do you understand?

Mr. CROWDER. I appreciate that very much, Congressman. What I would like to say—it's two points in there—is I can tell from the expression on your face that you were a little bothered by my not wanting to answer the question about the specific commodities in terms that I think from the market standpoint it is inappropriate to comment on proposals that are there.

As we indicated earlier, and it was indicated by some other people about the concerns of market impact of some of these things, talking about what's on the table and what is not. I think it is inappropriate to talk about wheat or any other commodity as long as it is on the table.

Second, I think, it is better to judge the success and management of the program over a period of time rather than over a 60- to 90-day period during which a management team is changing.

As I indicated earlier, I think, the program has been successful, and I think that the real test of the whole thing from my standpoint with respect to you is that you ought to judge as to how you see it managed and unfolding from here forward.

I do also think that the market conditions from time to time impact the volume of proposals that come to us or the volume of proposals that make economic sense. So, from that standpoint, I hope you will bear with me in terms of not wanting to respond to specific proposals and that you will also judge this over time and not in a 60-day or 90-day transition type period that we've been in, and I would hope the whole subcommittee would do that also.

Mr. GLICKMAN. Mr. Nagle.

Mr. NAGLE. What did the Economic Policy Council decide yesterday on this subject?

Mr. CROWDER. On what subject, sir?

Mr. NAGLE. The Export Enhancement Program we've been talking about this morning.

Mr. CROWDER. I don't think that the Economic Policy Council had a meeting on the Export Enhancement Program yesterday.

Mr. NAGLE. I'm told that they did.

Mr. CROWDER. They may have had a meeting on a specific issue with respect to the Export Enhancement Program.

Mr. NAGLE. I'm told that they met yesterday. I think your first answer was vague, unnecessarily evasive.

The Economic Policy Council met yesterday and discussed some aspects of the EEP; did they not?

Mr. CROWDER. That is correct.

Mr. NAGLE. Why in your testimony did you not tell us what was decided yesterday at the Economic Policy Council as it impacts on this program?

Mr. CROWDER. Because I don't think a final decision was made on an issue and, until a final decision is made, I think it is not being unnecessarily vague or evasive, but I don't think it is appropriate to comment until the decision is forthcoming, and that should come forth from the Economic Policy Council in any release of information there and not from me.

Mr. NAGLE. I'm told that the Economic Policy Council met yesterday on aspects of the EEP and decided to hold the program in abeyance—stop all EEP sales. Now was there a decision by the Economic Policy Council yesterday to hold EEP sales—specific sales—in abeyance?

Mr. CROWDER. Not that I am aware of.

Mr. NAGLE. It could have been decided and you might not be aware of it?

Mr. CROWDER. It could be but, if I'm not aware of it, I can't comment to that.

Mr. NAGLE. So we could assume by your answer, and I want to be fair to you, that, yes, the Economic Policy Council met yesterday; yes, they discussed the EEP; yes, it is possible that they decided to hold specific EEP sales in abeyance pending further administration review; and, yes, there is from the Economic Policy Council a decision that we are not going to engage in EEP sales at this time. That's about the size of it, isn't it?

Mr. CROWDER. You could assume any of those, but I would not want to comment on which one you should assume.

Mr. NAGLE. Would my assumptions in your judgment based on the knowledge and information you have available to you be in error?

[No response.]

Mr. GLICKMAN. Would the gentleman yield for a moment?

Mr. NAGLE. Sure.

Mr. GLICKMAN. I'm sorry. I was talking with Mr. Roberts when you were talking with Mr. Nagle. You say the Economic Policy Council did meet yesterday to talk about EEP. Just a question: Was USDA represented at that meeting?

Mr. CROWDER. They were.

Mr. GLICKMAN. Was it you or was it the Secretary?

Mr. CROWDER. It was the Secretary.

Mr. NAGLE. And you're saying that you don't know what was decided? You are telling us specifically you don't know what was decided yesterday at the meeting?

Mr. CROWDER. I am saying that I would not like to comment on, one, if anything were decided or, two, if it were what it was at this time. I think, that it should come from the Economic Policy Council. It's not for me at a hearing such as this.

Mr. NAGLE. So you do know what was decided. You just don't want to tell us.

Mr. CROWDER. When did I stop beating my wife in terms of that? My answer to the question was—

Mr. NAGLE. It is not the question.

Mr. CROWDER. No, no. My answer was as follows: That I would not want to comment, one, on whether a decision or not was made or, two, if a decision was made, to say what that decision was. So I'm not saying that a decision was made or not and I said that, if it were, I would not want to comment on what that decision was.

Mr. NAGLE. I'm just trying to get to the bottom of this. You're not telling us that you don't know what the decision was?

Mr. CROWDER. My first statement was that I said I would not want to comment on whether a decision was made or not. The second question you just asked presumes that a decision was made.

Mr. NAGLE. Well, I'm told, and I am going to operate on the assumption that my information is correct that there was a meeting of the Economic Policy Council yesterday, that the EEP was discussed and aspects of it were discussed, and that a decision was made to hold sales in abeyance pending a further review because of concern about the impact on consumer domestic food prices.

Maybe my information is in error and that I'm misinformed, but that's the assumption I'm going to operate on.

Mr. CROWDER. OK.

Mr. GLICKMAN. Mr. Jontz.

Mr. JONTZ. Good morning. I want to shift the subject just a little bit; value-added products.

I saw a few value-added products on the list of EEP exports. We now have about 10 percent of the world markets' processed agricultural products. How are we doing with EEP flour, vegetable oil?

Mr. CROWDER. The issue of value-added flour and, in particular, vegetable oil, we have done both in the past. There has not been a lot of it recently.

There are three issues with respect to that: One, whether the customers want it or not, in terms of what they ask for; two, is the question of the economics at the time in terms of the relationship between our price and what the cost of such a program would be; and then, three, is the total cost of a package of putting together in terms of does it make good sense in terms of how broad a pay you want it to be.

The economics of it has not been very good lately.

Mr. JONTZ. I would like to ask you to explain the economics. One of the important concerns of this subcommittee is the economy of Kansas. I have in front of me a statement by an economist from Kansas State who says that the allocating about 5 percent of last year's EEP funds to flour would have increased flour exports by the equivalent of 22 million bushels of wheat, increasing U.S. flour milling activity by 3 percent and that the net results to Kansas' economy alone would have been \$225 million.

I guess my question is, When you decide what portion of EEP assistance will go to processed products, do you look at benefits such as jobs and taxes, and is that included in the economic analysis?—because there are some critics who suggest we could be doing much more for our economy by using more EEP resources for value-added products.

Mr. CROWDER. Historically, as I understand the way the analysis has been done, those secondary and tertiary effects on the economy have not been taken into consideration. It is a question of the amount of the subsidy required for those specific products to com-

pete and, in essence, to use a multiplier effect of what that does back in terms of it is not specifically taken into account.

Mr. JONTZ. In particular, with regard to flour, our share of the world market for flour has dropped from 50 percent to 20 percent. EEP flour sales have decreased for 820,000 metric tons to 360,000 metric tons last year.

When was the last time that USDA approved a flour sale, and what do you anticipate for the next year? Are we just forgetting about it?

Mr. CROWDER. I do not know what the last date of the EEP flour sale was, but the answer is, no, we are not forgetting about it. We will consider any proposal for flour, for wheat, for oil, and evaluate each one on the merits of the case.

Mr. JONTZ. We are going to hear from the millers' federation shortly. Their testimony says that the USDA has become increasingly reluctant to approve prices and it was necessary to meet EC flour prices and that this past year the USDA failed to renew any EEP flour allocations and, for that reason, we have continued to lose market share.

They further say that, because of the income taxes generated from the increased economic activity, USDA economic studies have estimated that flour exports provide 55-cents revenue for the U.S. Treasury for every dollar's worth of wheat which is milled, thus offsetting the bonus amount.

They suggest further that the EEP be evaluated on the basis not just of subsidy dollars for metric ton, but in terms of subsidy dollars per unit of trade-policy leverage and net economic impact.

Do you think their recommendation has some merit in terms of decisions that the Congress might make or that your Department might make—I guess that's a more question—about where EEP dollars are used? Do you think the millers are off-base on this or do you think they have a good point?

Mr. CROWDER. Having just come from 14 years with a flour miller, I can understand from where they are coming in terms of the importance of run time and everything else to it.

I am not familiar with the economic impact they are talking about in terms of the 55-cents tax generated. I would be interested in taking a look at those numbers. They seem a little high to me just intuitively, but I have no basis for questioning them.

I have no problem with looking at value-added exports, be it flour which has been done before, and I'm familiar with those, or any of the other value-added products.

I will say this from an administrative standpoint, as you evaluate these day to day, quarter to quarter, week to week, it is awfully difficult to incorporate these things in there because, if you are in the large-run time, if you will of flour mills, when you are gearing up for the high flour consumption season when there is not a lot of excess capacity, the value of export flour sales at that time to this economy if they are running full out are certainly less than they would be when there is excess capacity and mills are not running full time.

Administratively, if you are talking about incorporating those things into a day-to-day decisionmaking process, you are making it awfully complex.

Mr. JONTZ. What about vegetable oil? We have a record level of vegetable oil stocks in this country—3 billion pounds. Our share of the world oilseed market is dropping. When was the last time that a vegetable oil sale was made?

Mr. CROWDER. Here again you're asking me a specific sale question that I don't know the answer to. I think, it has been some time. It is a question that a number of people have been asking me, and I have been inquiring of those. At least, in just the office meetings in terms of sitting around the table and talking about some of these things, the economics of that are such that, as I understand it, if we exported a lot, we could end up with a differential world market of almost recycling with some imports coming in.

I have not seen the data on that, but I have heard that that is possible from people with inside and outside.

Mr. JONTZ. I only have one more question and that is what sort of studies does USDA have about the impact of EEP on net farm income?

Mr. CROWDER. The answer is I don't know. There are about three studies that are going on right now at different places and ERS has some work contracted out, and I don't know that any of those studies have been completed, Congressman.

Mr. JONTZ. I would appreciate any information that you could forward to the committee. I think it would be helpful to us in making our decisions about where the dollars can most effectively be used to improve farm economy, and anything that you can share would be appreciated.

I thank you for your testimony this morning.

Mr. CROWDER. Thank you for your questions.

Mr. GLICKMAN. I am going to let the committee go around one more time. I know there is another panel that is waiting but, since the House is not meeting now, we probably will be able to conclude by about 1 o'clock anyway. Let me just ask a couple of things, and then I will go on to the other members who are here.

I think, Mr. Crowder, my concern as much as anything is the process—who makes the decisions. Is it the Office of Management and Budget; is it this TPRG, this group that gets together; is it the Economic Policy Council? Does anybody really know who makes the decisions?

What happens is, if there is no good clarification of process, you always get yourself into trouble. I have been here 13 years. I have seen it happen over and over and over again. This was the problem that Secretary Lyng got involved with OMB. He almost threatened to resign when OMB was going to set a different ARP/Acreage Reduction Program than he wanted to set. In that case he stood his ground and he won.

My first point to you is you and the Secretary are going to have to stand your ground or you will be eaten alive by the folks of the Department of State, the Department of Treasury, the Office of Management and Budget, and other people in terms of agriculture policy generally and in terms of this Export Enhancement Program.

My second concern, of course, is process; is that the procedures are unclear. I realize you have only been in office for about a week, but the procedures are unclear as to how bonus arrangements get

started. You have said most of it percolates within the Department, but we have had one case—the China case—where it percolated up outside the Department.

I think somehow, someplace, whether it is done regulatorily or whether in the next reauthorization of the farm bill, without tying your hands too much, we need to establish procedures to deal with this particular program so that the public knows how it is done.

There used to be an advisory committee, the EEP Advisory Committee. I understand that was disbanded by former Under Secretary Amstutz a few years back, and it doesn't meet any more.

I think you ought to seriously think about reestablishing an EEP Advisory Committee so you can have public input on this program as well, and not just have it kind of as a private input. That would make it I think important.

Fourth, a lot of these things have foreign-policy implications as well. I don't know the role of the State Department in all of this. I know they have some role, and I know they should have some role, but I think that role should be clarified so as not to seem that Ag is being made impotent in this process.

It is obvious when we sell the grain to the Soviet Union that has a foreign-policy implication. I have a list here—basically, it's a USDA list—of all the EEP initiatives. There are 102 of them.

Mr. CROWDER. Right.

Mr. GLICKMAN. 102 countries, I guess, it is. Well, actually, it is 102 initiatives.

Mr. CROWDER. 60-some countries.

Mr. GLICKMAN. 60-some countries. I want this made a part of the record.

[The material follows:]

**UNDER SECRETARY'S SUMMARY
EXPORT ENHANCEMENT PROGRAM**

Announced as of 10:00 April 14, 1989

Announced to Date: 81,015,390 MT grains and products (grain equivalent)
(Minus programs withdrawn) 560,000,000 table eggs (pieces)
 240,500 MT frozen poultry
 74,773 head dairy cattle
 645,000 MT vegetable oil

Sold to Date: 59,844,134 MT wheat
 2,686,922 MT flour (grain equivalent)
 6,432,011 MT barley
 72,610 MT semolina (grain equivalent)
 217,213 MT barley malt (grain equivalent)
 319,000 MT sorghum
 191,150 MT rice
 188,968 MT poultry feed
 442,000 MT vegetable oil
 153,342 MT frozen poultry
 69,773 head dairy cattle
 414,168,180 table eggs (pieces)

Total Sales Value: \$8,090.8 million
Market Value of Awards: \$2,513.2 million

**TOTAL ANNOUNCED
INITIATIVES:**

102

**COUNTRIES TARGETED:
(SALES COMPLETED OR
INITIATIVES STILL
OPEN)**

65 - Algeria, Bahrain, Bangladesh, Benin, Brazil, Burkina Faso, Burundi, Canary Islands (Spain), Cameroon, Central African Republic, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Cyprus, Dominican Republic, Egypt, El Salvador, Finland, Gabon, German Democratic Republic, Ghana, Guatemala, Guinea, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jordan, Kenya, Kuwait, Lebanon, Liberia, Mali, Mexico, Morocco, Niger, Nigeria, North Yemen, Oman, Peru, Philippines, Poland, Qatar, Romania, Saudi Arabia, Senegal, Sierra Leone, Singapore, Soviet Union, Sri Lanka, Switzerland, Togo, Tunisia, Turkey, United Arab Emirates, Venezuela, Yugoslavia, Zaire, Zanzibar (Tanzania).

COMMODITIES TARGETED:

12 - Barley, Barley Malt, Dairy Cattle, Eggs, Frozen Poultry, Poultry Feed, Rice, Semolina, Sorghum, Vegetable Oil, Wheat, Wheat Flour

EEP SALES AS A PERCENT OF TOTAL EXPORTS (VOLUME)

COMMODITY	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89¹</u>
WHEAT	51.0	65.0	65.6
FLOUR	63.6	38.6	13.8
BARLEY	98.0	75.0	71.3
SORGHUM	2.1	3.5	0
RICE	1.1	5.5	2.5
VEGETABLE OIL	3.2	26.4	2.8
FROZEN POULTRY	28.8	3.9	0.8
DAIRY CATTLE	42.6	4.7	0
EGGS	68.9	15.8	11.0

¹Through December 1988.

OUTSTANDING EEP BALANCES BY COMMODITY
AS OF APRIL 3, 1989
(MT in Thousands)

WHEAT	9,696.3
WHEAT FLOUR	267.5
BARLEY	817.0
BARLEY MALT	224.09
SORGHUM	331.0
RICE	20.0
VEGETABLE OIL	233.0
FROZEN POULTRY	87.2
DAIRY CATTLE	<u>5,000.0</u>
TOTAL	12,467,651



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D. C.
20250

April 14, 1989

TO: Christopher Goldthwait
Acting General Sales Manager and
Assistant Administrator, EC

FROM: John J. Reddington *JJR*
Acting Assistant Administrator
Commodity & Marketing Programs

SUBJECT: EEP Status Update

Attached is the EEP status report, based on information as of
10:00 a.m. Friday, April 14.

Attachment

NOTE: * SIGNIFIES AN ADDITION OR REVISION FROM THE PREVIOUS WEEK'S REPORT *

EXPORT ENHANCEMENT PROGRAM
Announced as of 10:00 AM
April 14, 1989

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
102. Kenya/wheat	May 6, '88	100,000 MT	Inactive
101. Central African Republic/ wheat flour	Apr 28, '88	40,000 MT	
100. Benin/wheat flour	Apr 25, '88	50,000 MT	Sold 13,800
99. West Africa/frozen poultry (Benin, Cameroon, Cote d'Ivoire, Gabon, Ghana, Guinea, Liberia, Senegal, Sierra Leone, Togo)	Apr 18, '88	5,000 MT	Sold 20
98. German Democratic Rep./wheat	Apr 14, '88	130,000 MT	
97. India/wheat	Apr 13, '88 Jul 13, '88 Oct 23, '88	1,200,000 MT 800,000 MT 1,000,000 MT	COMPLETE COMPLETE
96. Peru/barley malt	Mar 31, '88	20,000 MT	
95. Cameroon/barley malt	Mar 25, '88	20,000 MT	
94. Burundi/wheat	Feb 8, '88	10,000 MT	
93. Central America/barley malt (Costa Rica, El Salvador, Guatemala, Honduras)	Jan 27, '88	40,000 MT	Sold 2,000
92. Turkey/vegetable oil	Jan 6, '88	80,000 MT	COMPLETE
91. Algeria/barley malt	Dec 30, '87	10,000 MT	Sold 3,300
90. Iraq/barley malt	Dec 23, '87	5,000 MT	Sold 3,150*
89. Burundi/barley malt	Dec 16, '87	15,000 MT	
88. Lebanon/wheat	Dec 11, '87	150,000 MT	
87. Finland/wheat	Dec 9, '87 Jan 21, '88 Mar 4, '88	50,000 MT 50,000 MT 150,000 MT	COMPLETE COMPLETE (57,500) Sold 38,500

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ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
86. Mexico/wheat	Dec 2, '87 Mar 3, '88 Sep 27, '88 Oct 11, '88	200,000 MT 600,000 MT 300,000 MT 300,000 MT	COMPLETE COMPLETE(600,375) COMPLETE Sold 91,700
85. Zaire/frozen poultry	Nov 30, '87	7,000 MT	
84. China/dairy cattle	Nov 18, '87 Apr 29, '88	3,000 head	Sold 185 Head Balance Withdrawn
83. Bulgaria/barley	Nov 17, '88	150,000 MT	COMPLETE
82. Bulgaria/wheat	Nov 17, '87 Jan 4, '88	150,000 MT 200,000 MT	COMPLETE
81. Gulf Countries/frozen poultry (Bahrain, Kuwait, Oman, Qatar, United Arab Emirates)	Nov 3, '87	16,000 MT	Sold 4,022
80. Saudi Arabia/frozen poultry	Nov 3, '87	20,000 MT	Sold 500
79. Hungary/barley	Oct 30, '87	100,000 MT	
78. Algeria/vegetable oil	Oct 22, '87 Apr 8, '88	60,000 MT 60,000 MT	COMPLETE Sold 40,000
77. Morocco/vegetable oil	Oct 13, '87	60,000 MT	Sold 57,000*
76. Tunisia/vegetable oil	Sep 24, '87	60,000 MT	COMPLETE
75. Singapore/frozen poultry	Sep 24, '87	2,000 MT	Sold 182.3
74. Near East/table eggs (Bahrain, Kuwait, Oman, Qatar, United Arab Emirates, Yemen)	Aug 27, '87 Apr 15, '88	50 million 60 million	COMPLETE Sold 41.8 million
73. Saudi Arabia/dairy cattle	Aug 27, '87 Apr 29, '88	2,000 head	Sold 1,870 Head Balance Withdrawn
72. Iraq/barley	Aug 10, '87 Dec 28, '87	150,000 MT 100,000 MT	COMPLETE COMPLETE
71. Brazil/wheat	Jul 30, '87	300,000 MT	Sold 66,000
70. Colombia/wheat	Jul 30, '87 Oct 27, '88	300,000 MT 400,000 MT	COMPLETE Sold 155,000
69. Israel/wheat	May 29, '87 Apr 18, '88	200,000 MT	Balance Withdrawn

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ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
68. Bangladesh/wheat	May 22, '87	100,000 MT	COMPLETE
	Jul 8, '87	50,000 MT	COMPLETE
	Aug 12, '87	150,000 MT	COMPLETE
	Sep 10, '87	300,000 MT	COMPLETE
	Oct 31, '88	300,000 MT	Sold 162,500
67. <u>Soviet Union/wheat</u>	Apr 30, '87	4,000,000 MT	COMPLETE
	Oct 15, '87	65,000 MT	COMPLETE
	Nov 9, '87	2,400,000 MT	COMPLETE
	Nov 27, '87	2,350,000 MT	COMPLETE
	Jan 29, '88	2,000,000 MT	COMPLETE
	Mar 18, '88	1,000,000 MT	COMPLETE
	Apr 4, '88	1,000,000 MT	COMPLETE
	Dec 23, '88	2,000,000 MT	COMPLETE
	Jan 25, '89	2,000,000 MT	Sold 1,282,800
66. Turkey/rice	Apr 3, '87	70,000 MT	COMPLETE
	Nov 8, '88	10,000 MT	COMPLETE
	Dec 6, '88	30,000 MT	Sold 10,000
65. Colombia/barley malt	Apr 3, '87	15,000 MT	COMPLETE
64. Iraq/table eggs	Feb 20, '87	189 million	Sold 178.0 million
	Apr 22, '88	96 million	
63. Canary Islands/frozen poultry	Feb 9, '87	5,000 MT	COMPLETE
	May 10, '88	1,000 MT	COMPLETE
	Sep 22, '88	2,000 MT	COMPLETE
62. Nigeria/wheat	Jan 28, '87	500,000 MT	
61. China/wheat	Jan 26, '87	1,000,000 MT	COMPLETE
	Aug 18, '87	1,000,000 MT	COMPLETE
	Nov 17, '87	1,000,000 MT	COMPLETE
	Dec 11, '87	1,000,000 MT	COMPLETE
	Feb 5, '88	1,200,000 MT	COMPLETE
	Apr 5, '88	2,000,000 MT	COMPLETE
	Aug 18, '88	2,000,000 MT	COMPLETE
	Dec 7, '88	1,000,000 MT	COMPLETE
	Dec 30, '88	1,000,000 MT	COMPLETE
	Feb 27, '89	2,000,000 MT	Sold 1,090,000
60. Iraq/wheat	Jan 16, '87	800,000 MT	COMPLETE
	Oct 26, '87	1,000,000 MT	COMPLETE
	Feb 28, '89	1,000,000 MT	Sold 192,000*
59. Switzerland/barley, sorghum	Jan 16, '87	250,000 MT	Sold 9,000
58. Poland/wheat	Jan 7, '87	500,000 MT	COMPLETE
	Jul 2, '87	500,000 MT	COMPLETE
	Dec 1, '87	1,000,000 MT	Sold 975,000
	Mar 22, '88	500,000 MT	

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
57. Poland/barley, sorghum	Dec 31, '86	200,000 MT	COMPLETE
	Dec 14, '87	500,000 MT	Sold 338,000
56. Romania/wheat	Dec 23, '86	250,000 MT	
55. Iraq/frozen poultry	Dec 22, '86	60,000 MT	COMPLETE
	Oct 2, '87	10,000 MT	Sold 5,000
	Nov 25, '87	30,000 MT	
54. Dominican Republic/table eggs	Dec 9, '86	25 million	Sold 11.1 million
53. Zanzibar (Tanzania)/ wheat flour	Dec 9, '86	20,000 MT	Sold 6,000
52. Tunisia/barley	Dec 1, '86	150,000 MT	COMPLETE
	Mar 23, '88	350,000 MT	Sold 73,900
51. Gulf Countries/dairy cattle (Bahrain, Kuwait, Oman, Qatar, United Arab Emirates)	Oct 30, '86	1,500 head	COMPLETE
	Aug 27, '87	1,500 head	Sold 24
	Apr 29, '88		Balance Withdrawn
50. West Africa/wheat (Benin, Burkina Faso, Cameroon, Congo, Cote d'Ivoire, Ghana, Gabon, Liberia, Mali, Niger, Togo)	Oct 30, '86	345,000 MT	COMPLETE
	Jun 15, '87	185,000 MT	Sold 30,300*
	Feb 4, '88	50,000 MT	
49. Dominican Republic/ frozen poultry	Oct 29, '86	1,500 MT	COMPLETE
	Jan 12, '88	2,000 MT	
48. Philippines/barley malt	Oct 20, '86	60,000 MT	Sold 46,000
47. Cameroon/wheat flour	Oct 14, '86	20,000 MT	COMPLETE
	May 26, '88	35,000 MT	COMPLETE
46. Romania/barley	Sep 24, '86	200,000 MT	Sold 125,000
45. Venezuela/barley malt	Sep 4, '86	100,000 MT	
44. Cyprus/barley	Aug 26, '86	150,000 MT	COMPLETE(152,000)
43. Canary Islands (Spain)/wheat	Aug 8, '86	100,000 MT	Sold 23,300
42. Egypt/semolina	Aug 6, '86	30,000 MT	Sold 23,000
	Sep 29, '87		Balance Withdrawn
41. EXPIRED (Soviet Union/wheat - 4MNT - 8/1/86 to 9/30/86)			
40. Canary Islands (Spain)/ dairy cattle	Jul 28, '86	3,000 head	Sold 2,985 Head
	Apr 29, '88		Balance Withdrawn
39. Hong Kong/table eggs	Jul 28, '86	44 million	COMPLETE
	Nov 16, '87	48 million	COMPLETE

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
	Jun 7, '88	48 million	Sold 41.4 million*
38. Senegal/wheat	Jul 17, '86	100,000 MT	COMPLETE
	Sep 11, '87	110,000 MT	
37. India/vegetable oil	Jul 8, '86	25,000 MT	COMPLETE
	Dec 15, '87	300,000 MT	Sold 120,000
36. Jordan/barley	Jun 17, '86	60,000 MT	COMPLETE
	Nov 12, '87	100,000 MT	
35. Israel/barley	Jun 17, '86	200,000 MT	COMPLETE
	Sep 14, '87	200,000 MT	COMPLETE(206,200)
	Apr 27, '88	200,000 MT	Sold 71,657*
34. Tunisia/dairy cattle	May 29, '86	4,000 head	COMPLETE
33. Algeria/dairy cattle	May 29, '86	5,000 head	COMPLETE
32. Sri Lanka/wheat	May 16, '86	125,000 MT	COMPLETE
	Mar 5, '87	95,000 MT	COMPLETE
	Aug 20, '87	240,000 MT	COMPLETE
	Nov 15, '88	250,000 MT	Sold 100,000
31. Saudi Arabia/barley	May 7, '86	500,000 MT	COMPLETE
	Aug 6, '86	250,000 MT	COMPLETE
	Sep 16, '86	300,000 MT	COMPLETE
	Oct 8, '86	200,000 MT	COMPLETE(201,000)
	Jan 5, '87	1,250,000 MT	COMPLETE
	May 15, '87	500,000 MT	COMPLETE
	Aug 4, '87	500,000 MT	COMPLETE
	Apr 18, '88	250,000 MT	COMPLETE
	Jun 7, '88	300,000 MT	COMPLETE
30. Algeria/barley	Apr 17, '86	500,000 MT	COMPLETE
	Apr 19, '88	200,000 MT	Sold 198,000
29. Morocco/dairy cattle	Apr 16, '86	4,000 head	COMPLETE
	Dec 8, '87	7,500 head	
(non-reg.)	Apr 29, '88		Balance Withdrawn
	Jul 7, '88	5,000 head	Expired, Dec 31, '88
28. Turkey/dairy cattle	Apr 16, '86	5,000 head	COMPLETE
	Jun 18, '87	5,000 head	COMPLETE
	Nov 18, '87	10,000 head	
	Apr 29, '88		Balance Withdrawn
(non-reg.)	Jul 7, '88	5,000 head	COMPLETE
27. Egypt/dairy cattle	Apr 16, '86	6,000 head	COMPLETE
	Sep 12, '86	10,000 head	Sold 3,681 Head
	Oct 23, '87		Balance Withdrawn
26. Yemen/poultry feed	Apr 14, '86	150,000 MT	COMPLETE

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
	Dec 1, '87	186,500 MT	Sold 38,968
	Aug 31, '88		Balance Canceled
25. Yugoslavia/wheat	Apr 10, '86	200,000 MT	COMPLETE
	Jun 24, '86	200,000 MT	COMPLETE
	Oct 7, '86	500,000 MT	Sold 429,050*
	Oct 19, '86	500,000 MT	
24. Indonesia/dairy cattle	Apr 9, '86	7,500 head	COMPLETE
	Jun 18, '87	8,000 head	COMPLETE
	Oct 5, '87	8,000 head	Sold 4,000 Head
	Apr 29, '88		Balance Withdrawn
23. CANCELED (Syria/wheat - 700,000 MT - 4/8/86 to 11/14/86)			
22. Benin/wheat	Apr 7, '86	45,000 MT	Sold 30,000
	(Allocation reduced on 6/15/87; remaining 15,000 MT transferred to West Africa)		COMPLETE
21. Algeria/table eggs	Apr 4, '86	500 million	
	Sep 29, '87		Balance Withdrawn
20. Iraq/dairy cattle	Apr 4, '86	6,500 head	Sold 6,028 Head
	Apr 29, '88		Balance Withdrawn
19. Jordan/wheat	Mar 19, '86	75,000 MT	COMPLETE
	Jun 20, '86	75,000 MT	COMPLETE
	Dec 31, '86	225,000 MT	COMPLETE
	Mar 2, '88	350,000 MT	Sold 140,000
18. Tunisia/wheat	Mar 18, '86	300,000 MT	COMPLETE
	Aug 22, '86	800,000 MT	Sold 775,000
	Feb 3, '88	725,000 MT	
17. Algeria/wheat flour	Feb 25, '86	100,000 MT	
	Sep 29, '87		Balance Withdrawn
16. Algeria/semolina	Feb 11, '86	250,000 MT	Sold 30,000
	(Allocation reduced on 10/9/87)		COMPLETE
	Oct 9, '87	50,000 MT	
15. Philippines/wheat	Jan 7, '86	150,000 MT	COMPLETE(152,400)
	Aug 10, '87	500,000 MT	COMPLETE
	Feb 11, '88	500,000 MT	COMPLETE
	Sep 14, '88	700,000 MT	COMPLETE
14. Zaire/wheat	Dec 27, '85	35,000 MT	COMPLETE
	May 15, '86	45,000 MT	COMPLETE
	Oct 10, '86	40,000 MT	COMPLETE
	Jul 16, '87	80,000 MT	COMPLETE
	Feb 4, '88	160,000 MT	Sold 81,400*

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ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
13. Nigeria/barley malt	Dec 10, '85	100,000 MT	Sold 93,464
12. Iraq/wheat flour	Dec 9, '85	150,000 MT	COMPLETE
	Jan 7, '87	175,000 MT	Sold 125,000
11. Egypt/frozen poultry	Nov 26, '85	8,000 MT	COMPLETE
	Mar 21, '86	15,000 MT	COMPLETE
	Jun 18, '86	5,000 MT	COMPLETE
	Jul 8, '86	15,000 MT	COMPLETE
	Dec 19, '86	25,000 MT	COMPLETE
	Feb 27, '87	6,000 MT	COMPLETE
	Jun 7, '88	5,000 MT	
10. Zaire/wheat flour	Nov 18, '85	64,000 MT	COMPLETE
	May 15, '86	30,000 MT	COMPLETE
	Apr 20, '88	45,000 MT	
9. Philippines/wheat flour	Nov 15, '85	100,000 MT	Sold 50,000
	Sep 29, '87		Balance Withdrawn
8. Jordan/rice	Nov 8, '85	40,000 MT	COMPLETE
	Jan 13, '87	60,000 MT	COMPLETE(61,150)
7. Turkey/wheat	Oct 16, '85	500,000 MT	COMPLETE(306,600)
	May 8, '86	500,000 MT	Sold 298,000
6. Morocco/wheat	Sep 30, '85	1,500,000 MT	COMPLETE
	Dec 9, '86	790,000 MT	COMPLETE
	Jul 1, '87	500,000 MT	COMPLETE
	Nov 23, '87	1,500,000 MT	Sold 1,410,000*
	✓ → Dec 21, '88	1,000,000 MT	
5. Yemen/wheat	Sep 6, '85	100,000 MT	COMPLETE
	Jan 26, '87	100,000 MT	COMPLETE
	Oct 22, '87	100,000 MT	COMPLETE
	May 31, '88	100,000 MT	COMPLETE*
4. Yemen/wheat flour	Aug 20, '85	50,000 MT	COMPLETE
	Apr 14, '86	100,000 MT	COMPLETE
	May 18, '87	100,000 MT	COMPLETE
	Oct 22, '87	100,000 MT	Sold 16,040
3. Egypt/wheat	Jul 26, '85	500,000 MT	COMPLETE
	Oct 30, '85	500,000 MT	COMPLETE(512,500)
	Jun 24, '86	500,000 MT	COMPLETE
	Jul 29, '86	51,000 MT	COMPLETE
	Oct 8, '86	1,000,000 MT	COMPLETE
	Jul 8, '87	500,000 MT	COMPLETE
	Nov 30, '87	1,000,000 MT	COMPLETE
	May 11, '88	1,000,000 MT	COMPLETE
	→ Dec 14, '88	300,000 MT	COMPLETE
	→ Dec 28, '88	300,000 MT	COMPLETE
	→ <u>Feb 1, '89</u>	400,000 MT	Sold 100,700

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
2. Egypt/wheat flour	Jul 2, '85	600,000 MT	COMPLETE
	Aug 6, '86	600,000 MT	Sold 598,500
1. Algeria/wheat (excl. durum)	Jun 4, '85	1,000,000 MT	COMPLETE
wheat (excl. durum)	Apr 10, '86	1,000,000 MT	COMPLETE
durum	Nov 10, '86	300,000 MT	COMPLETE
durum	Mar 16, '87	300,000 MT	COMPLETE
durum	Jul 24, '87	300,000 MT	COMPLETE
durum	Oct 29, '87	300,000 MT	COMPLETE
wheat (incl. durum)	Dec 31, '87	1,000,000 MT	COMPLETE
wheat (incl. durum)	Aug 12, '88	1,000,000 MT	COMPLETE

KEP SUMMARY BY COMMODITY
(as of 10:00 AM 4/14/89)

<u>Sales By Commodity</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Cumulative</u>
Wheat (1,000 metric tons)	5,300	14,388	26,296	13,860	59,844
Flour (1,000 metric tons g.e.)	1,200	901	442	144	2,687
Barley (1,000 metric tons)	900	3,359	1,701	472	6,432
Emolina (1,000 metric tons g.e.)	0	73	0	0	73
Barley Malt (1,000 metric tons g.e.)	6	135	72	4	217
Orghum (1,000 metric tons)	0	106	213	0	319
Ice (1,000 metric tons)	23	28	120	20	191
Poultry Feed (1,000 metric tons)	0	111	78	0	189
Vegetable Oil (1,000 metric tons)	0	23	357	60	442
Frozen Poultry (1,000 metric tons)	43	95	13	2	153
Live Cattle (1,000 head)	6	52	12	0	70
Egg Eggs (million pieces)	0	258	129	27	414
 Total Sales Value (\$ million)	 804.6	 1,697.7	 3,270.2	 2,318.3	 8,090.8
Market Value of Awards (\$ million)	286.9	933.2	992.2	300.8	2,513.2

Apr-1989

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Mr. GLICKMAN. They all have foreign-policy implications to them. I assume that is why you have to have some sort of a working group to deal with these things but, at the same time, I just want to make sure that you are speaking with one voice.

It really is important, otherwise, you send conflicting signals around the world, conflicting signals here. You have to come up and face a hostile Congress which is probably not the most wonderful thing you've ever done in your life but, at the same time, it makes us look like we are not really in charge of what our Ag policy should be.

I have one technical question. Who sets the level as to the amount of bonuses for a particular initiative? Is it the USDA or is it the group?

Mr. CROWDER. The Trade Policy Review Group?

Mr. GLICKMAN. The Trade Policy Review Group.

Mr. CROWDER. It is the USDA.

Mr. GLICKMAN. Then what you would do, assuming you approved it internally, you would send it to the group with the level of bonus that you'd want in that particular initiative; is that correct?

Mr. CROWDER. You are correct in the first instance. Yes, we send the proposal to the TPRG. But we do not ask approval of the bonus level.

Mr. GLICKMAN. Then does this group modify the level of bonus or they approve it as recommended in most cases?

Mr. CROWDER. They approve it as recommended in most cases, as I understand it.

Mr. GLICKMAN. Do they have the authority to modify it, though? Could they change the bonus level?

Mr. CROWDER. That is a technical question that I don't have the answer to, Congressman.

Mr. GLICKMAN. As I understand it, whichever exporter comes closest to the bonus level is the one who wins the authority to participate in that particular program; is that correct?

Mr. CROWDER. That should be correct, sir.

Mr. GLICKMAN. Is that done under a sealed-bid arrangement?

Mr. CROWDER. Yes, it is.

Mr. GLICKMAN. Do you have formal regulations issued by Department which govern all of these bonus arrangements, or are they handled through some form of nonregulatory way?

Do you know? Your folks are back there. If they want to help you on that, that's fine.

Mr. CROWDER. They are not formal regulations.

Mr. GLICKMAN. There are no regulations. Are there formal regulations promulgated by the Department or by anybody in government which sets up this working group?

Mr. CROWDER. No.

Mr. GLICKMAN. Is this working group authorized under the law at all—specifically authorized under the law? Either you or your folks may speak to that.

Mr. CROWDER. No.

Mr. GLICKMAN. Obviously, EEP is authorized under the law. We did that. I have not gone back and looked at the statute but I think what we have done is Congress itself has contributed to this problem because we have given you the authority without providing

very much clarification or limitation on how you use it. I think you have gotten yourself in trouble because of that.

I am told that, in 1985, there were some regulations issued by the Department in connection with EEP. Do you know that or not? Does anybody know in the room? Raise your hand. [Laughter.]

Mr. CROWDER. As I understand it, we published the criteria in the Federal Register notice.

Mr. GLICKMAN. Published the criteria of?

Mr. CROWDER. For approving additionality, the budget neutrality.

Mr. CROWDER. In terms of the process you'd go through to in fact do that, those have never been published in regulations.

Mr. CROWDER. Not to my knowledge.

Mr. GLICKMAN. I again say that, if anything else comes out of this hearing, it is an example that we have created a situation which has had a lot of positive help to American agriculture, but it has been improperly defined and refined, and I think it has caused all of us some trouble.

I like the program, and I think we ought to continue it, but we really need to make sure that there are some boundaries to it as we reauthorize it. You all ought to look at that as well. You are going to get yourself into too much trouble. For example, this temporary working group is making decisions, in fact, vetoing potential sales and, yet, it doesn't appear anywhere in the statutes, so Congress has never authorized it.

Now, obviously, we have authorized the President of the United States to make the decisions, but that is not good enough here. I would say that is another point of serious concern of mine.

From a personal point of view, I appreciate your testimony, and I would look forward to working with you on these things. We probably will be in further contact with you.

Mr. CROWDER. May I respond to a couple of things that you said.

Mr. GLICKMAN. Absolutely. Yes.

Mr. CROWDER. Because of what you said, I think it is appropriate that we have the review because of the trade implications, because of the foreign-policy implications and so forth. I think that is appropriate.

I agree wholeheartedly with you that it is up to the Secretary and to me to take your arguments to the Trade Policy Review Group and be as persuasive as we can and, if I take something there, I take it there because I believe in it. If you will talk to people who have known me, I can be very persuasive and will be in this.

As we and you look at this whole issue, and I have no problem with reviewing criteria, procedures or anything else, I think we need to as I indicated a minute ago judge this in the process that we do from here forward and, as a result of the confusion, uncertainty, or however you want to characterize the past 60 to 90 days, let's not tie our hands or your hands with respect to a program that I think we both believe in. It is very important to the GATT Round.

I would hope that we would not rush in trying to set too narrow bounds in terms of restrictions. It is appropriate to understand the process and so forth, but let's not tie our hands too much.

Mr. GLICKMAN. We are not going to do that, but I think what we are asking you, as I look from the EEP status' update, we had a very active program. Then about January 1 of this year, it stopped. There were a couple of sales but, for all practical purposes, it is no longer moving.

What we want to know is, having come out of an effort and a campaign where EEP was a central issue, we want to know what's the policy of the administration. Sometimes being honest and having us being mad at you is much better than us being mad at you and you're not being completely candid and honest with us. That is all we are asking for.

If you are conducting review of this program for X, Y, and Z reasons, tell us and let us know up front that you are doing that, and I think you are going to find a more cooperative effort than the kind of misinformation and uncertainty that has been created a little bit in the last few weeks.

Mr. MARLENEE, did you have any further questions?

Mr. MARLENEE. Mr. Chairman, I've said too much already. I only want to congratulate Dick on his testimony and say that you've done a good job here this morning. You appear to be quite forthright and we look forward to seeing you a number of times.

Mr. CROWDER. Thank you, sir.

Mr. GLICKMAN. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman. I'm just curious to know on the scale of 1 to 10, Mr. Crowder, how you found your first experience before the committee with 10 being "I'd like to do it again real soon." [Laughter.]

And one being "I'm leaving Government service tomorrow morning." [Laughter.]

Mr. CROWDER. Are there other negative numbers? [Laughter.]

Two things about this: One, I find it appropriate to review these things. I think you learn from questions that, if you stay too inbred, you are likely to trip over your own ideas and not take advantage of those outside.

I don't believe anyone has a monopoly on good ideas. We are willing to listen. I have heard some this morning. There are some questions that I have not thought I could respond to as well as I would like but, hopefully, I would like to feel that it wasn't all that bad of an experience, and I would be more than happy to come back.

More interesting to me is on the scale of 1 to 10 what does that side think?

Mr. PENNY. I do have one matter that I would like to raise, and that is the value of EEP for dairy-cattle exports. We have utilized EEP to make sales of dairy cattle to the Middle East and, in doing so, we were competing with the Germans and the Dutch. It was important, in terms of making some of those sales, we have an overall dairy situation that can be benefitted by continued availability of EEP.

The statistics I have seen show that, in fiscal year 1987, 42.6 percent of dairy-cattle exports moved under this program and, in fiscal year 1988, 4.7 percent. There is probably some rationale for that and maybe it makes some sense, but I hope that we are not discon-

tinuing an interest in using EEP to help us make sales when we are in fact facing subsidized sales by other countries.

Mr. CROWDER. The dairy situation is one that has been brought to my attention a couple of times, and I made some inquiries about that. While I don't have the specific numbers on the top of my head, we did not have a very good experience with the dairy program at least in the initial phases at the time we did it for two or three reasons:

One was just the sheer magnitude of the bonus required to compete and, second, the administrative issues in terms of logistics, in terms of a number of things that really caused some problems with that. I think that dampened the enthusiasm for the dairy program, and it has not been brought back up.

Mr. PENNY. I just wanted to raise that issue because, in southeastern Minnesota, it has been utilized to our advantage. As you look at the overall dairy picture here domestically, it is a program that has helped us and may need to be utilized again, and we just want you to be on top of that.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. Penny. Mr. Nagle.

Mr. NAGLE. First of all, I want to express my appreciation for your presence this morning. I'm sorry you have only been here a week and it started perhaps a little rougher than it should have. I know there are negotiations going on right now with the Soviet Union regarding sales of grain.

I don't expect you to comment on the status of those negotiations, but I would observe generically that my sources told me from a variety of sources that they are quite eager to conclude an agreement of sale of U.S. grain. I would think that it would be in our strategic interest as well as our domestic policy interest to do everything possible and reasonable to see that those negotiations are brought to a successful conclusion.

I am afraid, my sources indicate, that we have not responded as expeditiously as we should in our negotiations with them. I think we may be looking too much for a short-term profit instead of the long-range implications both domestically within the Soviet Union and in terms of our relationship with them.

Normal barriers that stand in front of trade with the Soviet Union and the technology-transfer issue are not present, of course, in the sale of agricultural products. I think it would be imperative that that agreement be brought to conclusion even if we have to forego some short-term money.

I would encourage you in your position and capacity to see that negotiations proceed much more expeditiously than they have. I know it is ongoing, and I know you don't want to comment on it. I appreciate that, but I just wanted to express my sense of that to you.

Mr. CROWDER. Thank you.

Mr. GLICKMAN. Thank you, Mr. Crowder, for your testimony. I appreciate your being here today.

Mr. CROWDER. Thank you.

Mr. GLICKMAN. We will follow up with you probably on some of the things that we talked about.

Mr. CROWDER. No problem.

Mr. GLICKMAN. We have a panel now of four people. I would like them all to appear at one time, and I apologize for the delay. The panel includes Mr. Pat Thiessen, a constituent of mine, Western Regional Manager, Cargill, Inc., and chairman, Foreign Agricultural Committee, Millers National Federation, Wichita, KS; Mr. Carl Schwensen, executive vice president, National Association of Wheat Growers; Mr. Steve McCoy, executive director, North American Export Grain Association; and Mr. Sheldon Hauck, president, National Soybean Processors Association.

We thank you all for coming here to testify today, and we are particularly appreciative of Mr. Thiessen being here today. Sorry, the last witness took so long, but we felt it was necessary to at least both vent our frustrations as well as try to find out answers to some of the questions.

By the way, if any of you would care to comment in your original testimony as to any of the things we mentioned, feel free to do so.

All of the statements will be included in the record in their entirety so you may either read them or summarize them, but I think we will go down the road as listed. We will go Mr. Thiessen, Mr. Schwensen, Mr. McCoy, and Mr. Hauck.

STATEMENT OF PATRICK H. THIESSEN, WESTERN REGIONAL MANAGER, FLOUR MILLING DIVISION, CARGILL, INC., AND CHAIRMAN, FOREIGN AGRICULTURAL COMMITTEE, MILLERS' NATIONAL FEDERATION, ACCOMPANIED BY PAUL GREEN

Mr. GLICKMAN. Pat, it is a pleasure to have you here and welcome.

Mr. THIESSEN. Thank you, Mr. Chairman. With your permission, I ask that the federation's complete statement be entered in the record.

Mr. GLICKMAN. Without objection it will be.

Mr. THIESSEN. I would like to introduce Mr. Paul Green, who is with the Millers' National Federation. He is also available to answer questions if needed.

Mr. GLICKMAN. If he wants to sit up there with you, it's fine with me.

Mr. GREEN. No, it's OK.

Mr. THIESSEN. The Millers' National Federation fully supports the concept of EEP as originally established by Congress. We look at EEP as a means to enable the United States to compete in export markets controlled by countries using unfair trade subsidies.

I would like to call the committee's attention to the exhibits that I have previously submitted to them to emphasize why the trade-policy aspect of EEP is so important to U.S. millers. Exhibits 1, 2, and 3 show that the EC has targeted the value-added product of flour in its drive for dominance in world markets.

The U.S. share of the world flour market has dwindled from 44 percent in 1962 to 20 percent in 1984. The market share lost to the United States has gone to the EC.

In 1975, the flour milling industry filed a GATT 301 action against the EC on the grounds of unfair competition. The failure of the GATT dispute settlement process to resolve that case leaves

the value-added industries with no choice but to request Government assistance to challenge EC practices.

The EEP was originated by Congress in the administration to challenge the unfair market shares captured in many products through subsidies, and we believe that we have lost sight at the present time of the original goal of the program.

At the inception of EEP in 1985, USDA managed the EEP funds as an effective trade policy, balancing the use of funds between grain and added-value products. At first, the U.S. flour milling industry used the program very effectively to reenter world markets previously lost to the EC.

However, as shown in exhibit 4, with each succeeding year, the administration used EEP funds less as a trade-policy tool and more as a tool to dispose of surplus grain or to manage domestic supplies. In the case of flour milling, USDA became increasingly reluctant to approve prices and bonuses that were needed to meet EC flour prices; and this past year has entirely failed to renew any EEP flour allocations. As a result, our industries' ability to export has been effectively curtailed, and we have lost additional market share.

This change in the use of EEP funds was a mistake in our opinion. If it is allowed to stand, leverage will be lost at the GATT negotiations.

The EC has targeted value-added agricultural markets as its first priority for their export subsidies and has captured completely unnatural market shares based solely on the use of those subsidies. Therefore, from the standpoint of maintaining pressure on the EC, targeting value-added products for EEPs would have major tactical advantages. These markets are limited and, when the EC market share is attacked, it results in job loss, plant shutdowns, and considerable political pressure. Vigorous use of EEP in flour and other value-added products can be done without significant effects on either wheat supplies or the overall EEP budget. In fact, the opportunity exists today to show the result of our trade policy in agriculture.

At the present time, Egypt is in the process of purchasing wheat flour to cover their needs through December of this year. Egypt has already purchased 200,000 metric tons of flour from EC sources and has offered to purchase 300,000 metric tons of flour from U.S. mills as shown in exhibit 5.

To date, USDA has not agreed to an EEP allocation of flour for Egypt, although such an allocation has been requested by both Egypt and the U.S. milling industry. Parts of the U.S. Hard Red Winter wheat growing area have been hit by drought, but the 420,000 metric tons of wheat that would be necessary to make that 300,000 metric-ton flour sale would not visibly affect the U.S. wheat-stocks situation.

This hearing has focused attention on the effects of the drought on EEP and the budget ramifications of aggressive EEP usage. While we have addressed these points in more detail in our prepared statement, I feel inclined to point out that the drought in rainfall is a temporary phenomenon, but a failure to maintain a consistent targeted agricultural trade policy will result in permanent drought damage and demand for U.S. agricultural products.

Therefore, we feel it is essential that we maintain EEP allocations in flour and other products as a part of a strategic plan to bring about free and fair world agricultural trading rules.

Thank you.

[The prepared statement of Mr. Thiessen appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much, Mr. Thiessen.

Mr. Schwensen.

**STATEMENT OF CARL F. SCHWENSEN, EXECUTIVE VICE
PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS**

Mr. SCHWENSEN. Thank you for the opportunity to be with your subcommittee this morning. You have my prepared testimony. I would like to highlight it; maybe make about four points.

Four years ago, when this program began, the United States had a record stockpile of wheat—nearly 2 billion bushels. Nearly a third of that was owned by the Government. By the time the next year rolled around, the Government owned 45 percent of it. Since that time, we have taken our stocks down to below 600 million bushels. The surplus supplies declined by 70 percent in that period of time.

We think the program is very successful. We think it needs to be continued. Even though bonus levels are down, competition will reappear in the world market, basically, because there is a serious overcapacity to produce wheat and other grains in the world.

What I am saying is the stock situation has changed but the policy regimes have not. We are still going to be encountering the same type of institutionalized competition worldwide.

With regard to the drought and perception of tightening supplies, I think it is worth pointing out that wheat is harvested somewhere in the world every month of the year. In fact, our 1989 harvest has already begun in the southern portions of our country and will soon be in the full swing, so we are beginning to realize quantities from this year's crop already.

Moreover, we have reserves that will be coming out onto the market at the rate of about 40 million bushels over the next 3 months. This is farmer-owned reserve grain that is not being renewed.

We are concerned about the confusion that this committee has focused on with regard to the administration of the program. It is very damaging to markets; it's damaging to farm income; it is damaging to our reputation as a reliable supplier.

Our import markets are important to us, and we need to continue to send a clear signal to them as to the operation of our programs and the availability of our commodities.

That is all I have to say, Mr. Chairman. I will be pleased to answer questions at the appropriate time.

[The prepared statement of Mr. Schwensen appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Mr. McCoy, it is a pleasure to see you.

**STATEMENT OF STEVEN A. McCOY, PRESIDENT, NORTH
AMERICAN EXPORT GRAIN ASSOCIATION**

Mr. McCoy. Mr. Chairman, thank you. I just have a brief statement to make, and I want to thank you for the opportunity to appear at these timely hearings. It is very appropriate at this stage, given the circumstances you've uncovered, but also the general international-market circumstances, to reconsider the EEP at this time largely because the overall environment that existed in 1985, as Carl has just indicated, has substantially altered.

I am not going to go into the many reasons why that has come about. Many of the decisions that led to that development came out of this room but, suffice it to say, the policies ushered in by the 1985 Farm Act have had their intended effect in restoring competitiveness to much of U.S. agriculture, and the Export Enhancement Program has played a role in that process to a degree in assisting this evolution of U.S. agriculture toward greater competitiveness.

Unfortunately, the use of the program has not been without cost. It has, for example, massively increased the role and intervention of Government in the grain-marketing process to such a degree that, today, the Government rather than the market is making fundamental decisions regarding what is sold, to whom, at what prices, for what delivery period—even down to the particular class of wheat sold and the designation of the coast of shipment.

This is a consequence which the grain exporters believe was not intended by the authors of these programs and which poses a serious threat to the current and future integrity of our agricultural marketing system. It underscores the danger of reliance on Government export subsidies to achieve any purpose beyond a strictly limited short-term goal. It also begs the question as to whether the perceived benefits of the program outweigh the costs.

It may not be possible to fully decide that question today. That, in effect, is the question that is involved in this entire debate, involving OMB and everyone else. It is, however, I think, a legitimate question, one that should always be at the forefront of our thinking about this program.

If the costs of the program outweigh the benefits and the costs being widely construed to include the damage that the program may exact in terms of our marketing system, then the program should be eliminated or shelved immediately. If on the other hand the program is to be maintained, then it is appropriate to strictly define its purposes, identify its specific applications and uses, make it predictable and consistent—in short, make EEP an adjunct to the marketplace and not a threat to the market system itself.

We have in our testimony identified some of the stated and unstated objectives of the EEP. In our view, the only legitimate future purpose to be served by the EEP is in offsetting EC subsidies and serving U.S. negotiating purposes in the context of the GATT Round. The other objectives of the program—these are the wide objectives of competitiveness, et al.—either have been met or are better achieved through the medium of adjustments to current U.S. domestic farm policy.

The goal of maintaining U.S. competitiveness is best achieved by maintaining U.S. loan rates at or below market-clearing levels.

Moreover, acreage reduction programs and producer-target prices must be determined with full appreciation given to the impact of such factors on the competitiveness of U.S. commodities in international commerce. The entire U.S. agricultural production and marketing system should be made price responsive from top to bottom. In the current context, this means reducing acreage set-asides for major crops, realigning target prices to facilitate efficient production, and restoring flexibility to farms so they can produce and market commodities demanded by the market.

If EEP is to be maintained, the program should be redesigned to lessen the adverse impact of Government in the grain marketing process. Currently, the program acts as a deterrent rather than as a stimulant to U.S. export sales. Not all buyers are eligible to receive EEP and, among those countries who are eligible, many of them are unable to purchase what they want, when they want, and in the quantities they desire.

The U.S. Government, not the market, currently determines the price and allocation of wheat supplies. That heavy-handed Government role and the instability it inevitably brings is simply compounded and magnified in conditions of short supply such as we have experienced in the past year.

A greater element of stability, consistency, and predictability is necessary in the EEP. Greater transparency in the decisionmaking process is also necessary. These conditions could be met if, for example, USDA were to limit its role to the simple determination of a subsidy, if any, to a given country or a group of countries, leaving all other aspects of marketing to the buyers and sellers.

Lessening the inroads of conflicting Government agendas would also add an element of greater predictability. Leadership with regard to the program should be more clearly defined in the hands of the Department of Agriculture, thus diminishing the impact of other factors, particularly foreign policy considerations in the design and implementation of program decisions.

NAEGA is prepared to offer the committee specific recommendations concerning needed improvements in the EEP management and would, of course, be happy to share our views with you as you require.

Regarding the utility of EEP as a tool in U.S. GATT negotiations, we have Secretary Yeutter's strong assurance. On that basis alone, NAEGA and the export grain community would be prepared to support maintenance of the program subject to the type of modifications we have suggested in this testimony.

We reaffirm our concerns regarding the dangers implicit in adopting an export subsidy regime as anything other than a very limited short-term undertaking.

We urge the Congress not to entertain the notion that EEP releases us from the obligation to fine tune U.S. agricultural competitiveness through the medium of domestic farm programs. We are reassured by the progress made in the 1985 Farm Act and commend your diligence in regard to the issue of U.S. competitiveness. We urge you to stay the course of policy contained in the 1985 Farm Act, making changes this year and next as recommended elsewhere in this testimony as you approach the task of the 1990 legislation.

[The prepared statement of Mr. McCoy appears at the conclusion of the hearing:]

Mr. GLICKMAN. Thank you.

Mr. Hauck, it is a pleasure to have you.

STATEMENT OF SHELDON J. HAUCK, PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION, ON BEHALF OF THE NATIONAL COTTON COUNCIL, NATIONAL COTTONSEED PRODUCTS ASSOCIATION, NATIONAL SOYBEAN PROCESSORS ASSOCIATION, AND THE NATIONAL SUNFLOWER ASSOCIATION

Mr. HAUCK. Thank you, Mr. Chairman. I'll submit my prepared statement for the record. I would like to highlight a few things and, perhaps, in the process, answer some of the questions that were raised here today.

Speaking on behalf of the NSPA and our colleagues in the cotton and sunflower industries, we support the EEP primarily for one of its stated purposes—to fight unfair trade practices around the world. This industry has been devastated over the past 10 years by various subsidy practices in the softseed sector in the European Economic Community and South America, particularly on exports of soybean oil.

You can see from the appendix IV to our testimony that these subsidies averaged \$146 per ton on soybean oil from Argentina last year alone. That translates to about \$7 million on a 50,000 ton vessel, which is a typical size vessel moving in world trade.

We would like to urge that the committee do all possible to keep this program in place for the sole purpose of trying to obtain relief against these unfair trade practices. Because, without it, in a few years, we are going to be a domestic industry exporting nothing at all.

Some of the questions that were brought up this morning I would just like to comment on briefly. Whether the EEP is in a current state of being prohibited, inhibited, or under review, the bottom line is that nothing is happening. As to the policies that govern its operation, there are also some unstated policies which play a very big role particularly as far as we are concerned.

There is an unstated policy, and this has been confirmed at the highest levels, that no EEP's will be approved which might impinge or impair the ability of Argentina or Brazil to export into world markets. That is particularly difficult in the soybean-oil sector.

The other question or a statement, I guess, that was raised by Mr. Crowder, about exports of vegetable oil, an implication, that there is some recycling going on of exporting vegetable oil under the EEP and then other foreign subsidized oil comes in the back door. If that is of concern, I would like an opportunity to address it privately, because I am sure we can demonstrate that that theory is basically hogwash; that it could not sustain the light of day.

We also, which I think the committee should know, in March of last year, the 25th, submitted an EEP proposal with the Cottonseed Products Association and the National Sunflower Association for a 270,000-ton vegetable oil sale under EEP for the Soviet Union, which has not been turned down but has not advanced very far.

It was resubmitted yesterday with the request that it be given early review and favorable consideration—be reviewed and reactivated. That probably has not reached Mr. Crowder's desk yet.

There are opportunities for exports of vegetable oil under the EEP. As one of the members of the committee noted, we have record stocks of close to 3 billion pounds of soybean oil in the United States. The last EEP announced was April 8, 1988. The last shipment was 6,000 tons on that EEP, and this happened to be sunflower oil. April 4 of this year was the last movement.

We have tried to play the straight game through the 301 process and the GATT process since 1982, to try to resolve some of these difficulties that face the industry and, frankly, in the absence of an effective 301 process or a GATT process, the systems don't work.

Clayton Yeutter as Ambassador negotiated an agreement with the Argentines on reduction of their differential export task, from 12 percent to 9 percent. It stayed in effect for about 4 months, and they abrogated it. That was last August. To date, in spite of almost commuting by USTR representatives to Buenos Aires, they have not been able to resolve the commitment that was made; 3 percent was to have been just a start. There was still 9 percent to go in the differential, but that's where you pick up this \$146 a ton average subsidy.

So, with that, Mr. Chairman, I'll conclude. Those are the principal points, I think, we wanted to make within the time frame we had to express them and, obviously, stand ready to work with you and your staff on providing any additional background information that would be helpful in the committee's deliberations.

Thank you.

[The prepared statement of Mr. Hauck appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Mr. McCoy, first of all, you had some good suggestions which we will look at in terms of the program itself, but I kind of got the impression from you and your organization that you are willing to go along with EEP as part of a GATT strategy, but you are really not too hot about the whole thing in terms of how we fundamentally structure the way we price agricultural products and export them, that it ought to be done more in the marketplace rather than Uncle Sam doing it. Is that a fair summary?

Mr. McCoy. Yes. We look at the major development affecting competitiveness in the past few years as being the changes in the domestic farm program that this committee initiated in the 1985 Farm Act. We don't see the EEP as being—fundamental is a long-term part of our overall approach to competitiveness.

Obviously, we would like to see a situation and circumstance in which export subsidies were not used because they distort the market. We agree fundamentally with the administration's position on the GATT Round that export subsidies as we have seen distort production decisions and are not in the best long-term interests of consumers or producers.

Mr. GLICKMAN. I want to see how Mr. Thiessen responds to that because his comments were pretty supportive in terms the amount of grain and flour, perhaps, value-added products that are moved. I didn't know if there was some conflict between the two statements.

Mr. THIESSEN. I really don't, Mr. Chairman. I don't perceive any real conflict. As I understand it, they are supporting EEP for added-value products. I know that the subsidies that the Europeans are getting in flour tenders around the world make it impossible for the U.S. flour milling industry to participate without the EEP. I don't know how it is structured in other industries but, at least, in flour milling, we have about 1.4 million yearly tons of capacity that is dedicated really in effect to exports.

There really is no other place for it to go if it is not used there.

Mr. GLICKMAN. Let me ask all of you this question. I raised this in my opening statement about the permanency of this program. I support this. Obviously, I wouldn't call this hearing if I didn't think it was important, but I also think that we have to ask ourselves the question: Does this become a permanent part of farm policy or, if in fact we did reach some agreement on ending export subsidies, whether we ought to recognize that at some point this program is extinguished.

Do you all agree that, if we were able to move ourselves to a situation where export subsidies were substantially reduced, then we ought to give serious thought to extinguishing the Export Enhancement Program?

Mr. HAUCK. Well, at least, modifying it, perhaps, as a quid pro quo. I think that is reasonable.

Mr. THIESSEN. If we were successful in eliminating the subsidies, that take us out of the world markets, we would be in favor of eliminating the program, too.

Mr. GLICKMAN. It is trade-based program rather than a program-based situation as Mr. McCoy was talking about.

Mr. McCoy. There is the danger of using export subsidies for the same effect as that it is used in the European Community. It makes it easier for you to postpone the tough choices that you have to make in terms of the competitiveness of your own agricultural economy, and so it makes it easier for you to avoid fine tuning your own agricultural economy in the absence of subsidies that are disruptive such as EC subsidies.

It would seem to me that there would be no legitimate excuse for having a subsidy program. Obviously, we've used the program to build back up market share, and that was considered to be an important objective, and it served that purpose initially but, now that we have reached this point and particularly in the current climate, we need to examine whether or not we want to keep this thing and not simply blindly subscribe to it. We should only subscribe to it in the context of the trade-policy debate.

Mr. GLICKMAN. Carl, where do you think we are going to be at the end of this year in terms of carryovers and how that relates to EEP?

Mr. SCHWENSEN. Obviously, it relates very directly to EEP, Mr. Chairman, because it has been the engine behind our wheat exports and has enabled us to compete with institutionalized selling agencies such as wheat boards and the European Community system.

Where we end up depends upon how the EEP is administered and how we deal with competition that we encounter as we get into our new marketing season when competing exporting countries

harvest their new crops. I think stocks are going to be tight throughout the year if the policy course that has been in place up until recently continues to be pursued.

Mr. GLICKMAN. Let me ask a question about additionality. Any of you can answer. Perhaps, Mr. McCoy might want to try this one first. Do you think wheat exports increased between 1987 to the present because of lower loan rates, because of lower competitor yields, because of expanded Sino-Soviet demand, and how much of our expansion over the last two years can be attributed to the Export Enhancement Program?

Mr. McCoy. That is the \$64,000 question. That is what makes this whole OMB review process and all the various review processes so frustrating to people. You can't really demonstrate additionality in any clear-cut way. It's akin to the CBO trying to estimate the cost of the farm programs not knowing what the circumstances are going to be down the road.

Basically, you can achieve short-term additionality if the U.S. market share in an existing market goes up but, in terms of long-term additionality, unless you're building a market development in these countries, you can be certain that a country you are serving now using an export subsidy will return its original origins once the export subsidy is eliminated.

I guess, my view is that, while you can make claims for short-term additionality based on specific markets, it is very difficult if not almost impossible to make a claim for long-term additionality as the result of an export-subsidy program.

Mr. THIESSEN. Speaking for the flour milling industry, Mr. Chairman, I think we are practically bullet-proof on additionality because the EC subsidies range from \$60 to \$80 a ton over any U.S. subsidies. No importing country is going to pay that kind of premium.

Mr. GLICKMAN. So your sales are really fundamentally dependent upon this program.

Mr. THIESSEN. That's right. There are so many jobs that are dependent upon added-value products that that's why the EC is targeting them. For an Egyptian EEP sale today, it would take somewhere around the \$60 subsidy. According to the USDA's own numbers, there is going to be tax revenues generated around \$110 a ton due to income taxes up and down the line.

It's awfully hard to see why there is any reluctance to go into a program on that basis.

Mr. GLICKMAN. When is the last flour sale that we had?

Mr. THIESSEN. The last flour sale under EEP was last fall or late summer. The last initiative was April 1988.

Mr. GLICKMAN. Was that an Egyptian initiative?

Mr. GREEN. No; a small African country.

Mr. GLICKMAN. The last one of any size was—

Mr. GREEN. Over a year and a half ago.

Mr. GLICKMAN. In listening to Mr. Crowder today, I gather, in the case of wheat, this thing is hung up on whether we sell grain to the Soviets or not or what price. There was a Soviet agriculture attache here in the room, and I guess they are all in town, and we are all working on this thing, and nobody wants to talk about.

They suspect what's going on, and I can understand the sensitivity of that.

With respect to flour sales, I don't detect any real sensitivity in terms of East-West relations given to where most of our sales have gone to. They don't want to do it for budgetary reasons. Do you have any other feelings about that?

Mr. THIESSEN. The playback that we do get is informal because we are not getting any opportunity to talk directly with USDA decisionmakers, but we hear the argument that, if we are going to EEP funds, we want to use it on raw grain. They really are overlooking the tremendous advantages to the U.S. Treasury as a whole. Nobody is talking about that.

The other reason that they give us is because of the drought conditions in Kansas which touches parts of Oklahoma, Texas, and eastern Colorado. I think it really is a big assumption that we are not going to have a fairly decent Hard Red Winter wheat crop this year. There is a lot of growing areas that are not touched by drought.

Acreage has increased and I wouldn't be a bit surprised if we had about the same type of crop that we had last year when everything is in. Now, we are going in with a little bit less of a carryin or a carryout, whichever you want to look at it. It's down a little.

It sure doesn't warrant suspending an entire trade-policy program.

Mr. GLICKMAN. There is no advisory committee any more; is that a fair statement?

Mr. HAUCK. Not that I know of.

Mr. McCoy. They met two times in 1986. They fell apart on the issue of targeting. They recommended that the program be applied across the board. The Secretary or the Under Secretary Amstutz at that time said, "Thank you," and in the next meeting they recommended it again. And he said, "There's no purpose to meet it again." That's the story of the committee.

Mr. GLICKMAN. The other question I raised was do you all feel comfortable with how they conduct these things? In America, we usually try to do things in terms of laws and rules and regulations and sometimes they are overreaching but, at least, do you all need the predictability of knowing what the process is? Do you all feel comfortable with the process?

Mr. McCoy. May I comment on that?

Mr. GLICKMAN. Yes.

Mr. McCoy. This is something that the exporters feel very strongly about. One of the difficulties that we are involved with in this program is that we have managed to maneuver the Government in between buyer and seller and giving to the Government the opportunity and the mandate and the charge—and, in some cases, this is a charge they have taken with great pride and glee—to go out and negotiate basic conditions, basic terms of sale, between buyer and seller without regard to the people who will in the final analysis make the transaction.

It has reduced the U.S. marketing system to the position of a simple order-taker. It is frustrating then because the Government then becomes almost an entrepreneurial factor in the whole matter such that, for example, today—and today is a very good example of

the problem we have in here—everyone—the media, the traders—is listening to Mr. Crowder to get a little piece of what may be happening at the negotiations with the Soviets, the EPC meeting, whatever.

We have created through this program an environment in which the Government is making the market, and this is something that, if we allow it to continue without making some basic changes—and these involve this transparency factor and everything else—we run a real risk of causing some long-term damage to our marketing system.

Mr. GLICKMAN. Mr. Thiessen.

Mr. THIESSEN. We have a lot of difficulty, Mr. Chairman, with the consistency—the way it's administered and predictability. We have a lot of trouble getting allocations or, when we know what European prices are, there is a reluctance on the decisionmakers to approve those prices and the bonuses that have to go with it. So we are losing sales.

We have Yemen and Iraq tendering on some EEP sales on allocations that have been outstanding for a long time. Those sales will be going down probably this week. I would be pleasantly surprised if we got our decision machinery in gear fast enough that we could meet that type of competition, and that is what we don't like about the system.

Mr. GLICKMAN. Two years ago, we held the hearing on the wheat auctions. At that time, I said that, by indirection, we have created a Federal Grain Board in this country. There are couple of things people would say no to; they said we'll never have socialized medicine or national health insurance and we'll never have a Federal Grain Board.

Just listening to all of you today, it does appear to me that we have in fact created that. Maybe that is what has to be done to compete in the world, but it is the height of irony that in fact that is what has happened.

Mr. HAUCK. May I comment on that. For instance, on appendix III, we still have outstanding 221,000 tons that have been authorized—the program. They have been languishing; one, Algeria since April 8, 1988; India, December 15, 1987; Morocco, October 19, 1987. There are balances on those three that have been approved. So we don't criticize the Department for not having approved them.

The problem that has happened here, it is said, that Secretary Lyng would not approve any vegetable oil EEP's when the bonus price hit \$90. Now that is an odious price, I grant you. But, you are looking at averages of \$146 subsidies over the past year, and in some months they were as low as \$90 from the Argentine.

I would submit the higher the subsidy that we are being knocked out of the markets by, the more important it is that the EEP play a role in trying to bring some order to that nonsense.

But he had this kind of notion that, when it hit \$90, Tom Kay just wasn't supposed to bring it to him to look at, I'm told.

It just seems to me that there needs to be some rules in place that leave out this arbitrariness, as well as the arbitrariness of Treasury and State because something is going on here or there. I never hear about Ag policy getting in the way of foreign policy on

other issues that are of concern to people over there. We are not going to solve that today.

I just submit that, if we can just get this 221,000 tons out this year, which would be no problem, it would be a big, big help without even talking about opening the Soviet Union to an EEP or China or whatever other proposals.

Mr. SCHWENSEN. I have a comment, Mr. Chairman. I think this panel has agreed that the program should be driven by our trade-policy objectives. In the case of wheat marketing, our competition are wheat boards in Canada, Argentina, Australia, and the well-known European Community marketing system.

I think we have to keep this program alive and use it to assist our exports until such time as we can achieve the kind of reform that is necessary in relation to the practices of our trading partners.

Mr. GLICKMAN. We thank you. This has been a very interesting hearing. We appreciate your testimony.

Mr. Thiessen, we appreciate your coming from Kansas. Did you get any rain there yesterday?

Mr. THIESSEN. They were having some showers, I understand.

Mr. GLICKMAN. This subject is not going to die with this subcommittee. We will keep it alive. We just appreciate your being here. The hearing stands adjourned.

[Whereupon, at 1 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by Richard Crowder
Under Secretary for International Affairs
and Commodity Programs
U.S. Department of Agriculture
Before the Subcommittee on Wheat, Soybeans and Feed Grains
House Committee on Agriculture
April 27, 1989

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to appear before you and to discuss the Export Enhancement Program (EEP).

This morning, I would like to review the background, operations and accomplishments of the Export Enhancement Program (EEP).

The EEP was launched in the Spring of 1985 and has been used to accomplish three important objectives: first, to challenge unfair trade practices of competitor nations; second, to increase U.S. farm product exports; and third, to encourage serious negotiations under the Uruguay Round of Multilateral Trade Negotiations.

At the outset of the Export Enhancement Program, criteria for export enhancement initiatives were established by the Cabinet-level Economic Policy Council, which has representatives from the Departments of Agriculture, Commerce, Treasury, Labor, and State; the U.S. Trade Representative's Office; the Office of Management and Budget; the National Security Council; and the Council of Economic Advisors.

Those criteria, which are still in place today, stipulate that under the Export Enhancement Program:

--sales must be directed at specific markets, particularly those where competitors subsidize their exports;

--sales must increase U.S. agricultural exports above what would have occurred in the absence of the program;

--sales must result in a net plus to the overall economy; and,

--sales must not increase budget outlays above what would have accrued without the program.

All proposals are reviewed first by USDA to determine if the program criteria will be satisfied. Preliminary selections must then be approved by an interagency committee. The Department of Agriculture then implements approved initiatives.

Program implementation, in terms of mechanics such as tendering and contractual arrangements, has remained flexible. Procedures have varied from country to country to accommodate the individual buying systems of the importing nations involved in the program.

In the 4 years that the Export Enhancement Program has been in operation, we have announced 102 initiatives to 65 countries for 12 commodities--wheat and wheat flour, vegetable oil, barley, barley malt, semolina, sorghum, rice, poultry feed, dairy cattle, eggs, and frozen poultry.

To date, over \$8 billion of farm products have been sold under EEP, including close to 60 million tons of wheat; 2.7 million tons of flour; 6.4 million tons of barley; 72,610 tons of semolina; 217,213 tons of barley malt; 319,000 tons of sorghum; 188,968 tons of poultry feed; 442,000 tons of vegetable oil; 153,342 tons of poultry; 414 million eggs; and 69,773 dairy cattle.

In addition to business done to date, significant opportunities remain available.

While changes in macroeconomic policy and lower loan rates have helped boost U.S. agricultural exports, it is generally agreed that EEP has been a useful tool. For example, the U.S. share of the world wheat and flour market increased from 29 percent in marketing year 1985/86 when the EEP was launched to 42 percent in 1988/89. In key markets such as Morocco, Egypt, Algeria, China, and the Soviet Union, the U.S. share of the wheat market increased dramatically after the EEP was launched. Much of that improvement can be attributed to the EEP.

Without the additional exports generated by EEP, we would have had bigger deficiency payments, larger expenses for diverting production, higher storage costs, and less income for the entire agribusiness sector.

In addition to boosting exports, the EEP has been effectively used to counter the unfair subsidies of competitor nations, particularly the EC, and has enhanced progress in the Uruguay Round of Multilateral Trade Negotiations. We feel that the talks have been advanced by EEP and that as we negotiate over the next 20 months, the leverage of the EEP will continue to be important. We have no intention of slackening our resolve to compete in world markets on a continuing basis.

We manage EEP on a day-to-day basis. Both sales under existing allocations and requests for new initiatives are managed on a case by case basis, with each proposal being prudently evaluated in light of domestic and world market conditions.

The program continues to be important in maintaining our share of world agricultural trade and in providing leverage in the Uruguay Round. Our objective in the Uruguay Round is to rid the world of trade distortions. We are prepared to end the EEP program as soon as the EC and other nations take the same step. However, we will not unilaterally eliminate the EEP and we have undertaken no obligations in the short-term measures under the Uruguay Round Mid-Term Agreement that will affect program management. To maintain the negotiating leverage provided by the EEP, it is important that a legislative cap not be imposed on the program.

In summary, I would emphasize that the Export Enhancement Program has achieved its objectives; it has challenged the unfair trading practices of competitor nations; it has increased U.S. farm product exports; and it has encouraged serious negotiations under the Uruguay Round of Multilateral Trade Negotiations.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.



FACT SHEET

United States
Department of Agriculture

Foreign Agricultural
Service

Washington, DC
20250-1000

EXPORT ENHANCEMENT PROGRAM

Revised October 1988

The Export Enhancement Program (EEP), announced by the U.S. Department of Agriculture (USDA) on May 15, 1985, enables U.S. exporters to meet prevailing world prices for targeted commodities and destinations. The program is not used to undercut world market prices but to meet competition from other subsidizing countries, especially the European Community. While expansion of U.S. farm exports is the program's main goal, other important objectives are: to challenge unfair trade practices and encourage the United States' trading partners to begin serious negotiation on agricultural trade problems. The Food Security Act of 1985, which was signed into law on Dec. 20, 1985, made the Export Enhancement Program mandatory through fiscal year 1988, and required a program level during the three-year period of \$1.0 to \$1.5 billion. For fiscal year 1989, the Congress allocated \$770 million for the operation of the Export Enhancement Program.

The first EEP initiative was announced by USDA on June 4, 1985, for 1 million tons of wheat to Algeria. The first tender, which occurred August 14, 1985, was for 150,000 tons of wheat to Egypt. Thus far, 102 initiatives have been announced targeting 65 countries. Eleven commodities currently are eligible.

How countries are selected: Countries may be recommended for inclusion in the EEP by USDA program experts, members of the U.S. agricultural community, foreign government officials and others. Selected countries comprise markets in which U.S. exporters are facing subsidized competition from other suppliers, principally the European Community.

The 65 countries currently eligible for the EEP include: Algeria, Bahrain, Bangladesh, Benin, Brazil, Bulgaria, Burkina Faso, Burundi, Canary Islands (Spain), Cameroon, Central African Republic, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Cyprus, Dominican Republic, Egypt, El Salvador, Finland, Gabon, German Democratic Republic, Ghana, Guatemala, Guinea, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jordan, Kenya, Kuwait, Lebanon, Liberia, Mali, Mexico, Morocco, Niger, Nigeria, North Yemen, Oman, Peru, Philippines, Poland, Qatar, Romania, Saudi Arabia, Senegal, Sierra Leone, Singapore, Soviet Union, Sri Lanka, Switzerland, Togo, Tunisia, Turkey, United Arab Emirates, Venezuela, Yugoslavia, Zaire, and Zanzibar (Tanzania).

How commodities are selected: All U.S. commodities are eligible for inclusion in the EEP, as long as program criteria are met: (1) additionality: increased exports above what would have occurred without the program; (2) targeting: each proposal must target a specific market to challenge only the competitors who overtly subsidize their exports; (3) cost effectiveness: a net plus to the overall economy should result; and (4) budget neutrality: should not increase budget outlays beyond what would have occurred in absence of the program.

Commodities currently eligible under EEP initiatives are wheat, wheat flour, sorghum, rice, frozen poultry, barley malt, semolina, table eggs, barley, and vegetable oil. An initiative for 5,000 head of dairy cattle for Morocco expires December 31, 1988. In fiscal year 1988, wheat and wheat flour exports under the EEP comprised about one-third of the volume of total U.S. wheat and wheat flour exports.

How a sale is made and reported: All sales under the Export Enhancement Program are made by the U.S. private sector, not the government. Once an initiative is announced, it is up to U.S. agricultural exporters to contact prospective buyers in the eligible countries. Exporters and buyers come to a tentative agreement on prices, quantities, and other terms of the sale. The sale may be conditioned on approval of the terms of the sale by USDA. Each prospective exporter then submits a bid to USDA requesting a subsidy--or bonus--that would allow the sale to take place at the agreed-upon price. USDA reviews all bids for the competitiveness of the sale in the target country, compares the bids with offers and sales from other U.S. exporters and from competitor countries, and determines the competitiveness of the bonus value requested for each sale and the sales price. USDA has the right to reject any or all bids.

Once USDA accepts a bid, the sale is completed. USDA issues both daily and weekly export sales reports to the public. Exporters are required to report export sales of 100,000 metric tons or more of one commodity to one destination made in one day to USDA by 3:00 p.m. eastern time on the next business day following the sale. Export sales of less than 100,000 tons must be reported to USDA on a weekly basis.

Who gets the bonus and how: The bonus is paid to the U.S. exporter, not the target country. It is always in the form of a commodity from the Commodity Credit Corporation (CCC) stockpile. Exporters are given "generic" certificates of a specified value which they or an assignee can redeem for a like value of designated commodities in the CCC inventory. CCC publishes a weekly catalog of the commodities and their respective quantities in its inventory. Certificate holders redeem the bonus for these commodities. Once exporters furnish USDA with evidence that the specified commodity has been exported to the target country, they can request issuance of a certificate and delivery of the bonus commodities. The bonus commodities are delivered to certificate holders instore at the storing warehouse.

How can an exporter participate in the program: USDA announces the terms and conditions of each initiative under the Export Enhancement Program in press releases made available to all communications media. USDA also issues announcements and invitations to exporters to submit bids to CCC for a bonus. To learn how to qualify for participation in the program, interested exporters should contact the CCC Operations Division (14th & Independence Ave., SW, Washington, D.C. 20250-1000, Telephone: 382-9150 or 382-9240). For tape recorded messages announcing the acceptance of offers and the issuance of invitations under EEP, call the following respective hotlines, (202) 447-2043 and (202) 447-2042. Exporters are required to provide CCC with various financial securities in connection with participation in the program.

MILLERS NATIONAL FEDERATION

600 Maryland Avenue, S.W., Suite 305 West Wing • Washington, D.C. 20024 • Phone: 202-484-2200 FAX: 202-488-7616

MILLERS' NATIONAL FEDERATION

TESTIMONY BEFORE THE WHEAT, SOYBEANS AND FEEDGRAINS SUBCOMMITTEE OF THE AGRICULTURAL COMMITTEE, HOUSE OF REPRESENTATIVES

April 27, 1989

Mr. Chairman and members of the subcommittee:

I am Patrick H. Thiessen, Western Regional Manager, Flour Milling Division of Cargill Incorporated, from Wichita, Kansas. I am here today in my capacity as Chairman of the Foreign Agricultural Committee of the Millers' National Federation, the trade association of the U.S. wheat flour milling industry.

I thank the subcommittee for the opportunity to give this statement on a subject which is of vital importance to the U.S. milling industry and the myriad of industries which supply inputs to our value-added sector of agriculture. Trade policy and the role of export subsidies in agricultural products is a subject which has been synonymous with wheat flour since the origin of the European Common Agricultural Policy. Perhaps there is no product with as long a history or as vital a stake in the day to day challenges of trade policy and particularly individual sales of its product to specific markets. For that reason, the management of EEP as an effective trade policy tool is our utmost goal.

The Millers National Federation fully supports the concept of EEP as originally established by Congress. We look at EEP as an important trade policy tool that enables the U.S. to compete in export markets controlled by countries using unfair subsidies. We are encouraged by Secretary Yeutter's statements that he, too, views the program as a tool to provide leverage in talks to eliminate unfair subsidies by all parties.

BACKGROUND

The reasons that the EEP is so important to the U.S. flour millers are:

National Association of the Flour Milling Industry

-2-

- EEP is vital to the U.S. Flour Milling Industry if it is to continue to maintain a presence in world flour markets.

The E.C. has targeted the value-added product of flour in their drive for dominance in world markets, and, as a result, U.S. export flour markets have been taken away by the E.C. through the use of their restitution system. The U.S. share of the world flour market has dwindled from 44% in 1962 to 20% in 1984. The market share lost to the U.S. went to the E.C. (See Exhibits 1 and 2)

All this occurred while the trend line for world trade in wheat flour has shown slight increases over the years. (See Exhibit 3)

In 1975 the U.S. Flour Milling Industry filed a GATT 301 action against the E.C. on the grounds of unfair competition. The USTR accepted our case as the first agricultural test under the Subsidies Code. The international panel hearing the evidence refused to rule on the merits of the case; so nothing was accomplished. The failure of the GATT dispute settlement process leaves the value-added industries with no choice but to request government assistance to challenge E.C. practices.

- Without a U.S. Government program such as EEP, the U.S. Flour Milling Industry would be unable to prevent continued loss of its market share. In a very short period of time, our commercial export markets would be lost, the Industry would adjust its capacity to serve only the domestic market, and U.S. export market opportunities for wheat flour would be forever lost. The E.C. would win.

The U.S. Flour Milling Industry is competitive with foreign mills in world flour markets if the playing field is level. Over the past three years that our EEP program has been in place, E.C. mills have been granted an average of about twice the subsidies on wheat flour exports than were necessary for the U.S. mills to effectively compete.

EEP ADMINISTRATION

At the inception of EEP in 1985, USDA managed EEP funds as an effective trade policy, balancing the use of funds between grain and value-added products. The U.S. Flour Milling Industry used the program to re-enter world markets previously lost to the E.C.

However, with each succeeding year, the administration used EEP funds less as a trade policy tool and more as a tool to dispose of surplus grain or to manage domestic supplies. In the case of flour milling, USDA became increasingly reluctant to approve prices and bonuses

that were needed to meet E.C. flour prices; and this past year failed to renew any EEP flour allocations. As a result, our industries' ability to export has been effectively curtailed; and we have lost additional market share. (See Exhibit 4, Table of EEP Initiatives for Flour.)

The noted change in the use of EEP funds was a mistake.

- First and foremost, leverage will be lost in GATT negotiations.

The E.C. has targeted value-added agricultural markets as its first priority for export subsidies and has captured completely unnatural market shares, based solely on the use of those subsidies. In world markets which are so limited in suppliers and buyers, recapturing market share from the E.C. is possible without merely pushing them into other markets. In addition, failure of the E.C. to export value-added products results in job losses, plant shutdowns and substantially more political pressures toward a GATT settlement. Decreasing flour EEP allocations does just the opposite.

- If the allocations of EEP flour are not returned to a higher level, unused export capacity will be lost forever. As our export markets were taken over by the E.C., our industry adjusted capacity downward by closing mills. Today there remains about 1.4 million MT of yearly export milling capacity, mostly located in the hard red winter growing areas, that can export at competitive prices. Export capacity is competitive in world markets because of its physical location in relation to wheat supplies and destination U.S. ports. Most of this capacity cannot be utilized in many major U.S. markets for the simple reason that its location is not competitive to those markets. Those domestic markets that can be reached have insufficient demand to enable the mills to run profitably. Processing plants cannot be shut down for any length of time and remain in existence.

Several adverse consequences will result from a loss of this export milling capacity:

- A valuable wheat market will be lost to producers.
- There will be less millfeed for animal producers.
- Jobs and economic activity will be lost.
- Less income, and other, taxes will be generated.

- I should emphasize here that world flour and wheat markets are separate and distinct from each other. One cannot be substituted for the other. If an importing country has milling capacity, it will import the wheat necessary to support that milling capacity. It will not import flour to the extent that it shuts down its milling capacity. On the other hand, if it doesn't have sufficient milling capacity to provide flour of a quality that meets their

needs, that country will not import wheat; it will import flour.

Budgetary costs are sometimes cited as the reason for less flour and other value-added allocations under EEP. However, EEP bonuses for value-added products like flour are not the drain on the U.S. Treasury that they appear to be. Because of the income taxes generated from the increased economic activity, USDA economic studies have estimated that flour exports provide 55¢ revenue for the U.S. Treasury for every \$ 1.00 worth of wheat which is milled, thus offsetting the bonus amount.

We would like to suggest that this committee and those who administer the EEP evaluate the program on the basis of "bang for the buck", not in simplistic terms of subsidy dollars per metric ton, but in terms of subsidy dollars per unit of trade policy leverage and net economic impact.

CURRENT MARKET STATUS

At the present time, Egypt is in the process of purchasing wheat flour to cover needs through December. Egypt has already purchased 200,000 MT of flour from E.C. sources, and has offered to purchase 300,000 MT of flour from U.S. mills. (See Exhibit 5, copy of GASC letter.) \$ 150,000,000 of GSM 102 credit has been granted for the purchase of wheat, part of which would probably be used for wheat flour if USDA would grant an EEP allocation for flour.

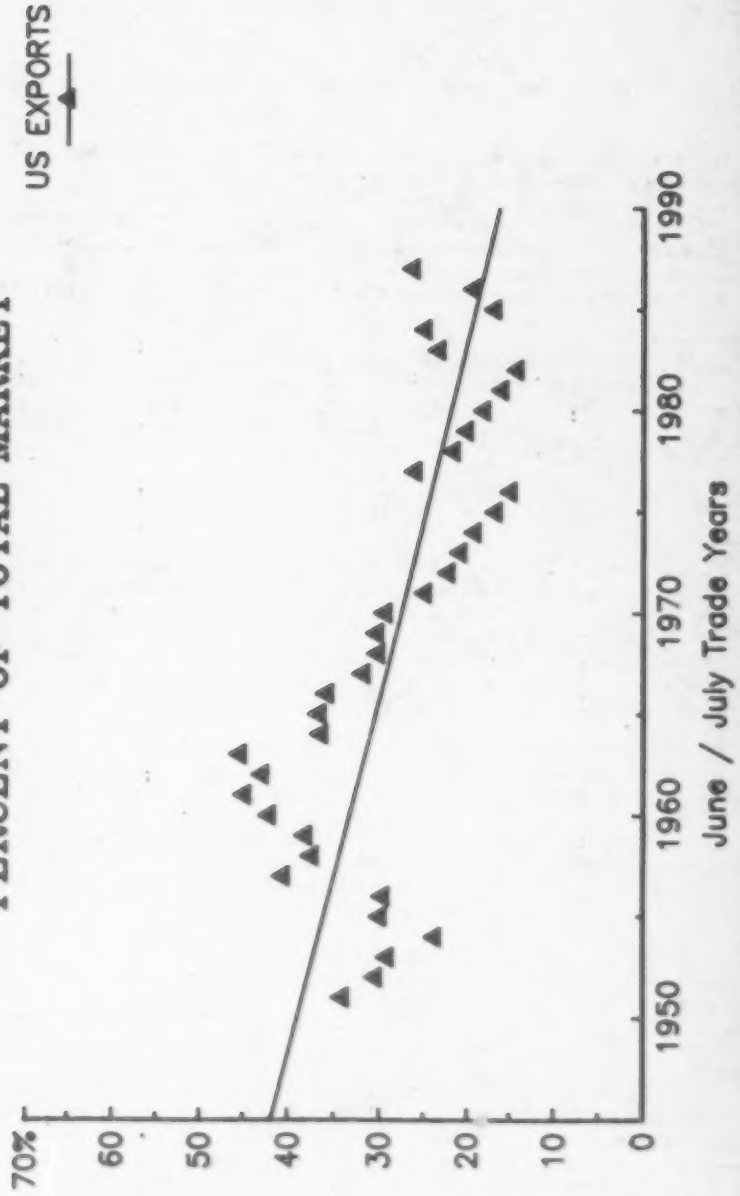
To date USDA has not agreed to an EEP allocation of flour for Egypt, although such an allocation has been requested by both Egypt and the U.S. Milling Industry. Parts of the U.S. hard red winter growing area have been hit by drought, but the 420,000 MT of wheat that would be necessary to make a 300,000 MT flour sale to Egypt would not visibly affect the U.S. wheat stocks situation. To put it in perspective, such a sale would take less than 1% of the total wheat exported from the U.S. in the crop year '87/'88.

Granting an Egyptian EEP flour allocation and additional allocations to Cameroon, China, etc. would provide sales that the export portion of the milling industry needs now. It would demonstrate to the E.C. that the U.S. is determined to hold on to our remaining export flour markets and to provide consistency in our trade policy that is needed.

In summary, the Millers National Federation strongly supports the EEP concept as a trade policy tool to be used to protect U.S. export market share when foreign predatory trade practices endanger that market share. This need, at the present time, is particularly strong for value-added products like flour, where E.C. resititution pricing practices remain unabated.

(Attachments follow:)

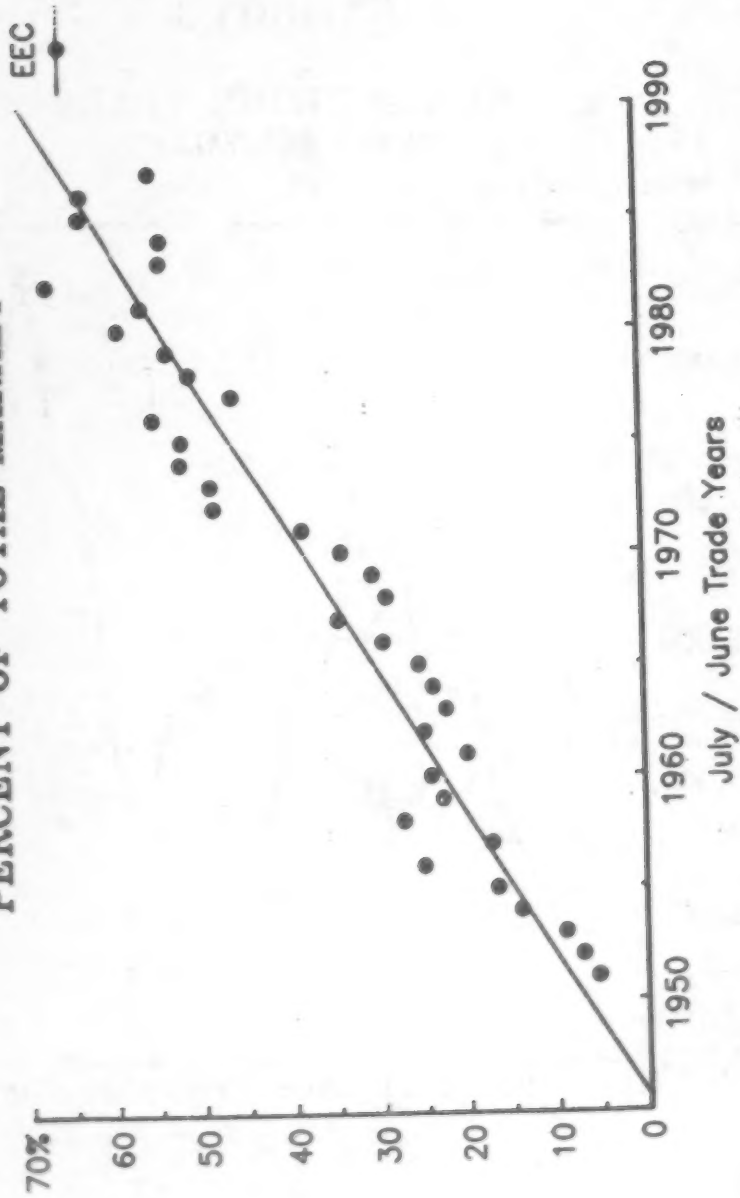
EXHIBIT 1 US FLOUR EXPORTS PERCENT OF TOTAL MARKET



Source: IWC

EXHIBIT 2

EEC COMMUNITY FLOUR EXPORTS PERCENT OF TOTAL MARKET



Source: IWC

EXHIBIT 3**WORLD FLOUR TRADE
WHEAT EQUIVALENT**

(Thousand MT)



Source: IWC

EXHIBIT 4

April 27, 1989

APPROXIMATE EEP WHEAT FLOUR SALES - METRIC TONS (OCTOBER - SEPTEMBER)

1986	820,000
1987	723,000
1988	360,000
1989	<u>59,000</u>
TOTAL	1,962,000

EXHIBIT 5

THE GENERAL AUTHORITY FOR SUPPLY COMMODITIES(GASC)
24, EL GOMHOURIA STREET
CAIRO - EGYPT

Date, April 15, 1989

Mr. Paul B.Green
Millers' National Federation
600 Maryland Avenue, S.W.
Washington, D.C.20024

Subject: Statement of Intent to Purchase U.S.Wheat Flour.

Dear Mr. Green,

The General Authority for Supply Commodities (GSAC) is in the process of purchasing Wheat Flour to cover Egypt's needs for the next several months. Due to the need to insure the food security of the Arab Republic of Egypt and the responsibility of the GASC to plan for essential supplies of Wheat Flour imports, GASC requires an immediate response with regard to its request to the U.S. for Wheat Flour. This is to advise you and other concerned parties that, if GSM 102 and Export Enhancement Program (EEP) allocations sufficient to cover the intended purchases are made available to Egypt, GASC intends to immediately tender for 300,000 MT of Wheat Flour from U.S.Mills at a price of \$249.00 per M/T C&F F.O. for shipments from June till December 1989, subject to the terms and conditions of GSM 102 and EEP.

We need a response to our request to the U.S. Secretary of Agriculture for these allocations by *May 3*, 1989 in order to assure adequate supplies of flour in the coming months.

Sincerely,

A. Samir El Shakankery

A. Samir El Shakankery
Vice-Chairman

Paz 4 H. 2.

Statement of Carl F. Schwensen
Executive Vice President
of the
National Association of Wheat Growers
before the
Wheat, Soybeans and Feed Grains Subcommittee
House Agriculture Committee
April 27, 1989

Mr. Chairman and Members of the Subcommittee: The National Association of Wheat Growers (NAWG) appreciates this opportunity to present its views regarding the Agriculture Department's Export Enhancement Program (EEP). I am Carl Schwensen, executive vice president of the NAWG which is headquartered here in Washington, D.C.

At this time four years ago, the U.S. was looking at the largest supply of excess wheat in its history -- 1.9 billion bushels. More than 30 percent of this stockpile was owned by the government. The government's share grew to 45 percent by 1986. It was during this period, of course, that the Export Enhancement Program was developed and put into operation. Since that time the EEP, in conjunction with other measures designed to move stocks, has been largely responsible for a 70 percent reduction in excess U.S. wheat stocks. As stocks have declined, market prices have increased, and now prospects generally appear to be good.

However, we must keep in mind that a serious over-capacity exists worldwide in grain production, and that our competitors will continue to use their institutionalized marketing systems to undercut U.S. prices. Perhaps these forms of competition can be eliminated during the Uruguay Round of trade negotiations, but until then the markets will not change.

In this regard, I want to comment on one particular aspect of the world wheat market. Wheat is harvested somewhere in the world in nearly every month of the year. For example, the U.S. harvest is underway in southern regions of the country now, at the same time that the Australians are beginning to plant their 1989-90 crop. As the world harvest unfolds, there are periods of intensified competition, and the EEP program will need to be broadly utilized during these marketing periods to maintain our market share.

The new wheat marketing season will begin June 1, and the U.S. is currently in a transition period between old crop and new crop supplies. We have been very concerned over the recent confusion regarding the use of the EEP during the remainder of the old crop season. As we understand it, authorizations presently on the books will be completed, but new business will require special approval until a review of the program is completed. Completion of the review could still be several weeks away.

I want to emphasize that confusion over the administration of the EEP program quickly translates into uncertainty and increased market risk. Predictably, prices fall. We hope that this hearing will produce the clarification of the program's operation that is sought by the grain markets and farmers alike, and that our reputation as a reliable supplier will not again be subject to question.

I want to thank you again for the opportunity to present the NAWG's views to the subcommittee. I will be pleased to respond to your questions at the appropriate time. Thank you.

Statement of
Steven A. McCoy, President
North American Export Grain Association
before the House Subcommittee on
Wheat, Soybeans, and Feed Grains
April 27, 1989

It is a pleasure to appear before you today as spokesman for the North American Export Grain Association (NAEGA), the trade association which represents the interests of the Nation's grain and oilseeds exporting companies and cooperatives.

Your hearing today is timely and merited. It is appropriate that the objectives and current operating procedures of the export enhancement program (EEP) be re-evaluated, both in light of its record in recent years and for its consistency with today's political and economic circumstances and the prevailing international market environment.

Many things have changed since May 1985, when the export enhancement program was first announced by the Reagan Administration at the strong urging of the 99th Congress. Between that time and this stand many significant developments:

- (1) the successful and as yet unfinished evolution of U.S. farm policy in the direction of greater competitiveness initiated by the 1985 farm act;
- (2) the recent progress toward international agricultural policy reform in the context of the Punte del Este

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round of the GATT negotiations;

- (3) a reversal of the strong dollar, which inhibited U.S. agricultural competitiveness throughout much of the early 1980's;
- (4) the re-emergence of the Soviet Union as a significant factor in U.S. markets;
- (5) the 1988 drought; and
- (6) the beginnings of early debate on future U.S. agricultural and trade policy looking toward the 1990 farm bill.

The prospects for U.S. agriculture certainly appear much brighter today than they did only a few years ago. This Committee deserves substantial credit for the improvement in agriculture's fortunes.

The policies ushered in by the 1985 farm act have had their intended effect in restoring competitiveness to U.S. agriculture through a gradual reduction in loan rates. The export enhancement program too has played a role in the evolution of U.S. agriculture toward greater competitiveness by maintaining U.S. market share during the transition to lower prices; by contributing to a drawdown in stocks overhanging the market; and by maintaining pressure on the European Community (EC) and others to reduce export subsidies and other trade and market distorting practices that run counter to the welfare of U.S. agriculture and the world's consumers of grains and oilseeds.

Of course, the use of the program has not been without cost. It has, for example, massively increased the role and intervention of government in the grain marketing process to such a degree that, today, the government rather than the market is making fundamental decisions regarding what is sold, to whom, at what price, for what delivery period -- even down to the particular class of wheat sold and the designation of the coast of shipment. This is a consequence which we believe was not intended by the authors of these programs and which poses a serious threat to the current and future integrity and proper functioning of our agricultural marketing system. It underscores the danger of reliance on government export subsidies to achieve any purpose beyond a strictly limited short-term goal. It also begs the question as to whether the perceived benefits of the program outweigh the costs.

We will not, perhaps, decide that question today. It is, however, a question that should always be at the forefront of our thinking. If the answer to that question is no, steps should be taken to eliminate or shelve the program immediately. If, on the other hand, the program is to be maintained then it is appropriate to strictly define its purpose, identify its specific applications and uses, make it predictable and consistent -- in short, make EEP an adjunct to the marketplace and not a threat to the market system itself.

We have touched on some of the past stated and unstated objectives of the EEP which include:

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- (1) enhancing U.S. competitiveness;
- (2) maintaining or expanding U.S. market share;
- (3) disposing of surpluses;
- (4) offsetting EC export subsidies; and
- (5) demonstrating U.S. resolve to achieve greater progress toward international agricultural trade reform.

Regarding all of the above, it is difficult to isolate the specific contribution of EEP. As we have already mentioned, many other critical developments have taken place since 1985 which have had as great, and in some cases much greater influence on our ability to meet the objectives above.

In our view, the only legitimate future purposes to be served by the EEP program is in offsetting the EC subsidies (point 4) and serving U.S. negotiating purposes in the context of the GATT round (point 5). The other objectives of the program have either been met or are better achieved through the medium of adjustments to current U.S. domestic farm policy. This is particularly true with respect to basic conditions affecting commodity prices and production.

The goal of maintaining U.S. competitiveness is best achieved by maintaining U.S. loan rates at or below market-clearing levels. Moreover, acreage reduction programs and producer target prices must be determined with full appreciation given to the impact of such factors on the competitiveness of U.S. commodities in international commerce. The entire U.S. agricultural production

and marketing system should be made price responsive from top to bottom. In the current context, this means reducing acreage set-asides for major crops; realigning target prices to facilitate efficient production; and restoring flexibility to farmers so they can produce and market commodities demanded by the market.

If EEP is to be maintained to further U.S. efforts to bring about international trade policy reform, the program should be redesigned to lessen the adverse impact of government in the grain marketing process. Currently, the program acts as a deterrent rather than as a stimulant to U.S. export sales. Foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases.

The decision-making process affecting EEP is inherently unstable -- for one thing, it depends upon a consensual inter-agency process that, among its other considerations, deliberates on foreign policy objectives of the United States that are subject to change. Not all buyers are eligible to receive EEP; and among those countries who are eligible many are unable to purchase what they want, when they want, and in the quantities they desire. The U.S. government, not the market, currently determines price and allocation of wheat supplies. That heavy handed government role -- and the instability it inevitably brings -- is simply compounded and magnified in conditions of short supply such as we have experienced in the past year.

A greater element of stability, consistency, and predictability is necessary in the EEP program, if it is not to

place an unreasonable burden on grain markets. Greater transparency in the decision-making process would result in improvement in the program.

This condition could indeed be met if, for example, USDA were to limit its role to the simple determination of a subsidy (if any) to a given country or group of countries, leaving all other aspects of marketing to the buyers and sellers. This step would, on its own, go a long way toward restoring market orientation to the program, while eliminating unnecessary government involvement in market transactions.

Lessening the inroads of conflicting government agendas would also add an element of greater predictability. Leadership with regard to the program should be more clearly defined in the hands of the Department of Agriculture, thus diminishing the impact of other factors, particularly foreign policy considerations in the design and implementation of program decisions.

NAEGA is prepared to offer the Committee specific recommendations concerning needed improvements in the EEP program management. We will, of course, be happy to share our views with you as you require.

Regarding the utility of EEP as a tool in U.S. GATT negotiations, we have Secretary Yeutter's strong assurance. On that basis alone, NAEGA is prepared to support maintenance of the program, subject to modifications as have been herein recommended. We do so despite the export grain community's longstanding philosophical opposition to export subsidies of any kind.

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We reaffirm our concerns regarding the dangers implicit in adopting an export subsidy regime as anything other than a very limited short-term undertaking. As a longer-term measure, export subsidies are not a proper substitute for appropriate market-oriented domestic farm policies. EEP must be viewed -- as it was initially -- only as a temporary measure.

We urge the Congress not to entertain the notion that EEP releases us from the obligation to fine tune U.S. agricultural competitiveness through the medium of domestic farm programs. We are reassured by the progress made in the 1985 farm act and commend your diligence in regard to the issue of U.S. competitiveness. We urge you to stay the course of policy contained in the 1985 farm act, making changes this year and next, as recommended elsewhere in this testimony, as you approach the task of the 1990 legislation.

(Attachment follows:)



North American Export Grain
Association Incorporated

THE EXPORT ENHANCEMENT PROGRAM (EEP): A PROPOSAL FOR CHANGE

Recommendations of the North American Export Grain Association

May 1989

Introduction

In testimony presented before the House Subcommittee on Wheat, Soybeans, and Feed Grains on April 27, 1989 (see attached), the North American Export Grain Association (NAEGA) has recommended "redesign" of the current export enhancement program (EEP) to "lessen the adverse impact of government in the grain marketing process".

The EEP currently "acts as a deterrent rather than as a stimulant to export sales", the testimony states: "foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases". The testimony notes that "a greater element of stability, consistency and predictability is necessary in the EEP program, if it is not place an unreasonable burden on grain markets". It also notes that "greater transparency in the decision-making process would result in improvement in the program".

The following information is provided as additional to the views expressed in NAEGA's April 27 testimony. The North American Export Grain Association (NAEGA) represents the interests of U.S. grain and oilseeds exporting companies and cooperatives.

The Current System

Currently, USDA -- either internally, or, more often in negotiation directly with a foreign buyer (usually a government) -- determines the terms of sale of commodities sold under the export enhancement program (EEP) down to specifics including shipment period; coast of shipment; class and grade of grain; and, in many cases, price. Once these initial determinations are made, the buyer invites exporters to bid for the business.

USDA calculates the bonus it believes is needed to buy-down the price of the commodity to the price offered by the EC for the commodity in the market in question. An exporter or exporters offering to sell within the bonus range may be granted a bonus and thereby the business.

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However, the process is not automatic. Prices and acceptable bonus levels vary from day to day; and from period to period. USDA, by exercising total discretion with respect to such sales, may reject or accept on any given day business offered at terms better or worse than those offered on the previous day or day following.

There is an absence of consistency and predictability in the program.

The Current Problems

The negotiation of contract terms and the setting of bonus levels by USDA takes away from the exporter the ability to rearrange domestic positions to benefit from the most efficient and advantageous terms; and prevents competitively placed producers from participating in the sale to the extent that they would under free market conditions.

By tightly limiting the shipment, the present system prevents the buyer from making any substantial forward purchases. EEP initiatives are offered piecemeal. A buyer who may be disposed to buying substantial quantities of grains in predictable conditions is precluded from that option because he cannot predict when the next initiative will take place. The lack of consistency and predictability in the program creates frustration for both buyer and exporter, results in charges of buyer "discrimination" and, in the long term, will tend to drive our best volume customers to more predictable origins.

Indeed, this may already have happened. Producer, buyer and exporter all fail to benefit from the program as Congress intended. Significant sales and, hence, purchases from producers go unmade.

A Partial Solution

There is no perfect "market-oriented" solution to problems of this nature created by a targeted export subsidy program which, by its very nature, impedes the normal function of markets. Nevertheless, certain improvements in the current system could be made which would restore to a greater extent the operation of the free market to the benefit of the program and affected parties, including exporters and producers.

NAEGA has reviewed some possible solutions. Among these, we recommend the following:

- (1) **NEGOTIATIONS SHOULD BE DONE DIRECTLY BETWEEN BUYER AND SELLER, ELIMINATING THE GOVERNMENT ROLE IN DETERMINING PRICE, SHIPMENT PERIOD, COAST OF SHIPMENT, CLASS, AND GRADE OF GRAIN, AND OTHER CONDITIONS OF SALE.**

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- (2) THESE NEGOTIATIONS SHOULD PERMIT THE CONTRACTING FOR:
(a) A CLASS OR CLASSES OF GRAIN; AND (b) SHIPMENT FROM ANY PORT OR COASTS.
- (3) CLASSES AND GRADES OF GRAIN AND COASTS OF SHIPMENT SHOULD, AS IN THE FREE MARKET, BE SWITCHABLE AT ANY TIME PRIOR TO SHIPMENT BY PRIOR AGREEMENT OF BUYER AND SELLER.
- (4) THE SAME BONUS SHOULD APPLY TO ALL CLASSES OF WHEAT (OTHER THAN DURUM) FROM SHIPMENT FROM ALL COASTS.

IF NECESSARY, AN "ADDITIVE BONUS", SUCH AS THAT THE EC NOW EMPLOYS, COULD ALSO BE GRANTED AND, IF GRANTED, PUBLICALLY ANNOUNCED, TO COUNTER PARTICULARLY AGGRESSIVE SUBSIDIES APPLIED TO EXPORTS OF OTHER ORIGINS OF A GIVEN COUNTRY.

- (5) TRANSPARENCY AND STABILITY SHOULD BE ADDED TO THE MARKET.

For example, USDA could, not later than the beginning of each crop year, announce an "EEP marketing plan" specifying eligible countries and quantities of commodities available for such countries under the program.

If, under this type of scheme, the quantities specified for any individual country had not been contracted for within six months of the announcement of the plan, the quantities specified in the plan could, by public announcement, be reduced. When, on the other hand, quantities in the plan had been fully contracted, the quantities first announced in the plan could again by public announcement be increased.

Alternatively, USDA could limit its annual announcement to a list of eligible EEP recipient countries. Such a step, while not preferable to the suggestion above, would provide improved transparency while also preserving USDA's flexibility to use EEP strategically for purposes of countering foreign unfair trade practices.

- (6) THE BONUS SHOULD BE ANNOUNCED ON A DAILY BASIS AND THE SAME BONUS LEVEL SHOULD APPLY TO ALL ELIGIBLE COUNTRIES.

A weekly subsidy, such as used by the EC, might also be an acceptable alternative.

- (7) UPON ACCEPTING A CERTAIN QUANTITY OF AN ANNOUNCED BONUS, THE EXPORTER SHALL DECLARE THE DESTINATION.

Unwarranted "nuisance" provisions of current regulations should be eliminated or reasonably amended. For example, qualification requirements currently deny participation to an

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exporter -- however financially sound and scrupulous its performance with government contracts may be -- simply on the basis that it has not, in the past, exported the commodity to be exported under a particular EEP initiative.

We have no interest in making eligible to participate in this program companies that are not properly eligible; nor have we an interest in loosening appropriate management safeguards. However, these requirements, as they apply to exporters currently participating in the program, appear to us to be anti-competitive and improperly exclusive.

Performance security requirements of EEP are needlessly burdensome. Once the financial capacity of an exporting company is established and, provided the company has a record of good performance on government contracts, the bonding requirements called for under current regulations should be waived for that company.

Likewise, regulations attending entry certification should be eased. In some cases it is difficult, if not impossible, to obtain evidence of entry in the form the regulations currently require. The regulations should allow in the alternative any competent and credible evidence such as certification by the vessel owner, any entity of the buyer's government in its country or in the United States, or a stevedoring firm, etc.. The purpose of the program is not to gather entry certificates of limited format -- it is to export grain.

Current program regulations should be amended to state that, in the event that a vessel sinks or a part of the cargo is lost, the bonus should not be forfeited.

Finally, exporters should not be penalized for failure to meet contract minimum when such failure is attributable solely to the presence of dockage. In accordance with international practice and freighting arrangements, the quantity stipulations of sales contracts provide that quantities are gross; i.e., including any dockage. CCC regulations should correspond.

The management proposals above have been submitted with particular reference to wheat. However, NAECA notes that these proposals should be applicable to all commodities exported under the export enhancement program.

**TESTIMONY BY SHELDON J. HAUCK
(PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION)
BEFORE THE HOUSE COMMITTEE ON AGRICULTURE,
SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEEDGRAINS**

ON BEHALF OF

**THE NATIONAL COTTON COUNCIL
THE NATIONAL COTTONSEED PRODUCTS ASSOCIATION
THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION
THE NATIONAL SUNFLOWER ASSOCIATION**

**APRIL 27, 1989
1255 TWENTY-THIRD ST., N.W.
WASHINGTON, D.C. 20037
PHONE: 202/452-8040**

Mr. Chairman, Members of the Committee, thank you very much for the opportunity to comment on this very important topic.

I am Sheldon Hauck, President of the National Soybean Processors Association. I am appearing here today not only representing my organization, NSPA, whose member companies crush half of this Nation's annual soybean crop, but also on behalf of the members of the National Sunflower Association, the National Cottonseed Products Association and the National Cotton Council.

I understand that the American Soybean Association has shared their views in favor of the program with the Chairman through a hand delivered letter dated April 26, 1989.

I commend you, Mr. Chairman, and the members of this committee for holding this hearing at this time. Given a new administration, the difficulties you face in addressing the budget deficit and the uncertain status of agriculture in the Uruguay Round of GATT negotiations, this opportunity to reaffirm our very strong support of the EEP program is very much appreciated.

BACKGROUND--PURPOSE OF THE EEP PROGRAM

Speaking now for NSPA--we, as well as the American Soybean Association, have traditionally been outspoken voices in all forums in insisting on free and unfettered trade in oilseeds and oilseed products. Individually, and together, we have always urged our government and industry policy makers, and those in other countries, to do all possible to ensure free trade throughout the world. However, as events developed during the past 10-15 years, it appeared that the United States was the only country adhering to those principles. The U.S. soybean industry, producers, processors, users and all other segments found that they were increasingly at a competitive disadvantage in world markets. Many of the foreign subsidy programs were having and continue to have a devastating effect on our industry. The symptoms of these problems can be seen in the closing of over 20 U.S. crushing plants within the past decade (See Appendix I attached), and the loss of over 12.5 million acres of soybean production, and the list goes on.

Having said all that by way of background, let me share with you the thoughts of NSPA, which led us to vigorously support the EEP program for vegetable oils. As you may know, we have been trying to resolve the most severe distorting trade practices, especially in South America and the EEC, by availing ourselves of the provisions of Section #301 of the Trade Act and by urging our government to take aggressive action through the GATT process. However, as you may also know, we have

been unsuccessful in mitigating these trade distorting practices through any of the statutory processes. To date, either our government cannot obtain agreement within the various government agencies as to how to pursue our complaints, or agreements, once reached with foreign governments, are breached within a few months after implementation (e.g.) Argentina.

Similarly, we have been totally unsuccessful to date of obtaining relief through the cumbersome GATT process.

It was against this frustrating background of having exhausted the remedies within U.S. law and not having obtained relief, that we reluctantly decided as a matter of policy to actively pursue relief through the EEP program. To us, it has been a very successful effort. While the economic benefits have been positive, more importantly, it has been the only action undertaken by the United States in recent memory which has captured the attention and concern of our competitors in the world oilseed sector.

(It would have been even more effective without the unwritten, but carefully observed policy of our government prohibiting EEP vegetable oil sales which impact on export markets of our South American competitors).

The principle focus has been on EEC markets, as you know. As a matter of basic NSPA policy and principle, we remain opposed to subsidies anywhere in the world in the agricultural sector and strongly support the U.S. position in the Uruguay Round of trade negotiations currently underway.

We remain convinced that continued intelligent, aggressive application of the EEP program for vegetable oil is a major, and perhaps the only significant tool the United States has to bring these countries to the negotiating table and induce them to negotiate in good faith to eliminate these odious trade practices.

Restated, NSPA believes and has always believed that the EEP program is designed for and has been most effective for the stated legislative purpose--to combat unfair trading practices of other countries in world trade in the agriculture sector. We have not and do not support the view that it is a subsidy program, per se and would further note that we would be the first industry to walk away from the EEP program if our government could induce other countries to abandon or significantly modify their odious unfair trade practices.

CURRENT STATUS OF THE INDUSTRY--AN OVERVIEW**A. What has happened in the past 10 years?**

Soybean production in the United States has fallen by 10-12 million acres in the past 10 years

South American Soybean production has increased by 10-12 million acres in the past 10 years.

The U.S. crushing industry has closed over 20 plants in the past ten years as documented on Appendix I which is attached.

The equivalent of the total soybean production of Iowa and Illinois has been relocated to South America.

The U.S. share of world oilseed trade has declined from 75% to 45% in the past 6 years. In this same period, U.S. vegetable oil exports fell from 10% to 6 % of the world total, while U.S. imports of vegetable oils have doubled.

Stocks of vegetable oils in the United States as of March 31, 1989 were at record levels--over 2.9 billion pounds.

Our total share of the world markets for soybeans and products have fallen from 90% of the total world trade in the late 1960's to today, where we participate in less than 50% of world trade. World production and use have increased by over 25 million tons in the last ten years.

This is in spite of a continued expansion in world demand for protein meal and vegetable oil. In the past six years the U.S. share of world output of oilseeds has dropped from 39% to 24%.

The United States has not shared in the growth and, in fact, continues to lose its traditional market share.

The U.S. is not expected to export any soybean oil in commercial transactions this marketing year which are not aided by the U.S. government through GSM financing; PL 480 programming or the EEP program.

B. Why?

Two major reasons:

The current farm program encourages farmers to plant program crops, rather than respond to market signals and demand for oilseeds.

The unfair trade practices of South American countries and the EEC in the world oilseed sector have had a devastating effect on the U.S. oilseed industry.

C. How?**EEC**

In the last 2 years, EEC rapeseed oil has traded between 4 cents and 6 1/2 cents per pound less than U.S. soybean oil in world trade. If U.S. processors would have attempted to compete with EEC subsidized rapeseed oil prices, the soybean bids to U.S. producers would have been between 45 cents and 70 cents per bushel less.

ARGENTINA

By subsidizing the export of soybean oil and soybean meal into world market through various export subsidy programs. For example, in 1988, Argentina subsidized its exports of soybean oil at an average of \$146 per metric ton! (See Appendix IV attached)

THE COTTONSEED SITUATION:

The U.S. cottonseed industry needs the EEP program in order to maintain market shares in a limited number of available export markets. The same trade barriers and unfair practices of other countries also limit access of cottonseed oil to numerous markets that have been traditional users of cottonseed oil. APPENDIX III attached shows that U.S. exports of cottonseed oil over that past 15 marketing years have declined from 53% of total U.S. cottonseed oil production to an average, over the past 5 years of 35%.

THE SUNFLOWER SITUATION:

From the perspective of the U.S. sunflower industry, the EEP program has been the key factor in restoring foreign markets lost during the past seven years. Sunflower is eighty percent dependent upon exports. The shift of 4 million acres from wheat and barley into sunflower and rapeseed production in the EEC in the early to mid-1980's was the

principal cause of an identical reduction in the U.S. sunflower acreage planted during the same period. Not only did the U.S. lose an important market for sunflowerseed in Europe, but we saw a drastic cut in sunflower oil sales to traditional third-country markets in North Africa and Latin America.

Lost markets for sunflower exports translated directly into sharply lower sunflower prices. From a high of 18 cents per pound in 1982, sunflower farmgate prices fell to between 6 and 6.5 cents per pound in 1987. It was only when the Reagan administration agreed to extend EEP eligibility to edible vegetable sales did this situation begin to change. Today, after last year's aggressive EEP program for oil, sunflower prices are again in the 10 to 11 cent range. Industry analysts estimate that at least half of this price improvement for U.S. producers can be attributed directly to sunflower oil exports under EEP.

Sunflower producers have no protection against lower prices and income under existing farm programs. As a result, they are extremely sensitive to changes in world market conditions, and will shift acreage into other non-program crops when prices are low. The decline in prices and acreage over the past seven years resulted in the closing of three of six sunflower crushing plants in the upper Midwest. Continued operation of the remaining facilities is entirely dependent on maintaining acreage through the EEP program.

THE EEC SUBSIDY PROGRAM IN THE OILSEED SECTOR

Notwithstanding the competition we face from South America, the EEC is remains a major concern.

1. Within the EEC, the cheapest vegetable oil has consistently been rapeseed oil. Typically, rapeseed oil trades at 50 to 100 points less than soybean oil. Soybean oil is able to command only a 50-100 point premium within the EEC consumer market.
2. In the year preceding the announcement of EEP, the cheapest vegetable oil trading in world trade was rapeseed oil from the EEC. It was at least \$25 to \$35 per MT cheaper F.O.B. EEC origins than sunflower oil, soybean oil, or palm oil from any origin. Even with the initiation of the EEP program for vegetable oils, rapeseed oil continues to be the cheapest vegetable oil offered for export from the EEC and has alternated with palm oil about 50% of the time as the cheapest vegetable oil in world trade.

Within the EEC, the oilseed system is designed to ensure that all EEC oilseed production is processed and products sold into the world market-at any price. The subsidies paid to processors give them a major incentive to buy rapeseed and sunflower seed; process them; and sell

the products at whatever level is required to attract buyers. Higher prices stimulate selling pressure, while inhibiting buying demand in the short term.

3. Under the United States EEP program, (As of April 11, 1989) 241.1 M MT of soyoil and 169.4 M MT of sunflower oil has been sold at world market prices, as established by the EEC oilseed subsidy system, into the world market. (See APPENDIX III) Annually, the EEC exports in excess of 1 M MT of subsidized rapeseed and sunflower oil. The EEP program was and continues to be directly targeted at these EEC oilseed subsidy policies. It is our opinion that it has caused the EEC to make at least minor initial concessions regarding future expansion of subsidized oilseed production. Hopefully, with additional pressure from the U.S. through additional EEP oil sales, additional concessions and reforms will result. We view the movement of 241.1 M MT of soybean oil exported under the EEP program as a positive and helpful initiative by our government to attempt to bring reform and "level the field for competitive oilseed production." **It must also be noted that those EEP sales allowed 50 million bushels of surplus soybean stocks in the U.S. to be sold into world markets as soybean oil.**

4. In the last 2 years, EEC rapeseed oil has traded between 4 cents and 6 1/2 cents per pound less than U.S. soybean oil in world trade. If U.S. processors would have attempted to compete with EEC subsidized rapeseed oil prices, the soybean bids to U.S. producers would have been between 45 cents and 70 cents per bushel less. In the last three years, over 85% of the soyoil produced in the U.S. was consumed in domestic markets. The 15% balance was shipped for export under PL-480, GSM, and the EEP programs or went into storage. **None was sold commercially without government assistance.**

EFFECTS ON OILSEED PRODUCERS

We must understand that today North American oilseed producers are unfortunately the **residual sellers** to foreign demand. **Over 95% of the world's oilseed carryover is in the U.S. and Canada.** All other oilseed producing countries process and consume, or export, their total oilseed production. The annual 10 M MT of subsidized EEC oilseed production, equal to 370 million bushels of soybeans is the single most significant negative influence on foreign demand for U.S. soybeans.

Last year, for the first time in many years, U.S. soybean processors and soybean processors throughout the world enjoyed satisfactory margins. A unique set of supply and demand factors, most importantly a strong demand for soybean meal, created this positive environment. All free-market soybean processors were the beneficiaries. The impact of the export of 250 M MT of EEP soybean oil was insignificant, relative to the other supply/demand factors working in the marketplace. We believe,

based upon our careful analysis, that the U.S. soybean farmer is the primary beneficiary of the EEP program which allows U.S. origin soyoil to compete with subsidized EEC rapeseed oil in the world market place!

The U.S. EEP vegetable oil program is the only direct counter measure the U.S. has developed to date to induce the EEC to agree to elimination of its unfair oilseed production subsidies.

The U.S. processors, in the domestic market, process soybeans to meet soyoil demand in the U.S., not meal demand. In the last three years, domestic demand for soyoil versus domestic demand for soybean meal, has been more than 100 million bushels annually greater. The more soyoil exports under EEP, the more demand U.S. processors will have for U.S. produced soybeans at higher prices than world values!

If reforms or elimination of these unfair trading practices in other nations are not soon forced by the U.S. Government through negotiation or other processes, such as the EEP program, the U.S. soybean farmer will be producing soybeans only to meet domestic demand.

In the past 8 years, the demand for U.S. produced soybeans has contracted while world demand for protein and oil has expanded. During the next 5 years, it is not beyond the realm of probability, in the absence of major reforms, that the subsidized EEC oilseed production, subsidized EEC field peas and green bean production could further replace current and prospective additional soybean meal demand. In addition, further expansion of S. American soybean production, and expanded palm oil production could further contract the U.S. soybean producers share of the continuing growth in world demand. The smaller the U.S. share in world markets, the less impact the U.S. soybean producer will have on price determination!

In the near term, expansion in demand for U.S. soybean production will require the elimination or substantial mitigation of these unfair EEC subsidies. The EEP oil sales program initiated by our government is the only direct and effective measure undertaken against the EEC and those policies. We therefore, urge the most vigorous use of this program in stimulating exports of U.S. produced soybean oil.

U.S. soybean producers, as the residual sellers to foreign markets, will be the primary and most direct beneficiaries of any reduction in the EEC subsidies, which ultimately will lead to a reduction in EEC oilseed production. Within this context, the EEP program should be viewed as a major force in accomplishing a reformation of EEC oilseed policies which is

the primary relief sought by the current ASA #301 case against the EEC.

INCREASE IN VEGETABLE OIL IMPORTS INTO THE U.S.

Because of the many factors I have outlined above, we now have the strange anomaly of importing soybean oil into the United States. The increase in vegetable oil imports into the U.S. is the direct result of our current farm policy and unfair trading practices in other countries. The NSPA is strongly committed to making the U.S. the world's largest soybean and soybean product exporter. Toward that end, we must emphasize that the U.S. EEP soybean oil programs are targeted specifically at the EEC subsidized oilseed production scheme. The EEC oilseed producer currently receives more than twice the value that U.S. farmers are paid for their soybeans.

STATUS OF PROGRAM AND INDUSTRY RECOMMENDATIONS

Mr. Chairman, questions have been raised recently about the future of the EEP, its appropriate use and its relative benefit to U.S. agricultural interests. Let me make our case perfectly clear:

First, our industry would not anticipate making any commercial export sales in the near term of U.S. vegetable oil without assistance. This will result in lost export revenues, lost jobs associated with our exporting activities and lower prices for U.S. produced oilseeds like soybeans, cottonseed and sunflowers.

Second, the world marketplace is dominated by subsidized trade from South America and the EEC. These sales set world market prices, typically far below world prices.

Third, the EEP program buys down the price of U.S. products to the world price, temporarily making the U.S. origin products a competitive alternative for buyers of vegetable oil. It does not subsidize the buyers of these products to the detriment of U.S. producers or consumers.

Exports of fats and oils from S. America, Malaysia, EEC (including Spain), Indonesia, Canada and the U.S. are in excess of 12 Mil. MT annually. The 424 M MT of U.S. EEP vegetable oil exports, shipped over a sixteen-month time period, represented less than 4 % of the annual world trade.

Finally, we believe sustained reduction of trade barriers and export subsidies, along with U.S. policies making our products competitive, is the only lasting solution to this unacceptable situation in world vegetable

oil trade. The EEP is the only effective incentive we have to force our competitors to the negotiating table. I would also add there are more than ample markets in the world to which we could export on a continuing basis if we were not faced with these unfair trade practices.

In summary, Mr. Chairman, world demand for oilseed products continues to grow steadily at four to six percent per year. At the same time, the U.S. market share for these commodities is declining rapidly. Until we see significant reform of export subsidies on the part of our competitors, I believe we have no choice but to fight back, and the EEP is the only effective vehicle developed to date.

Again, thank you Mr. Chairman for your leadership in this area. I appreciate this opportunity to voice our concerns and reiterate our industry position in favor expanded and aggressive application of the EEP program for vegetable oil.

###

T030

(Attachments follow:)

APPENDIX I

U.S. SOYBEAN PLANTS DISMANTLED (DM) OR
CLOSED (C) THIS DECADE

AUGUSTA, GA.	(Switched to Peanuts)	
BELMOND, IA.		DM
CAMERON, S.C.		DM
CHAMPAIGN, IL.		C
CHATTANOOGA, TN.	(1/2 of plant)	DM
CHICAGO, IL		DM
DECATUR, IL.		DM
EAGLE GROVE, IA.	(1 of 2 extraction plants)	DM
FORT DODGE, IA.		DM
HARTSVILLE, S.C.		C
JACKSON, MS.		C
LOGANSPORT, IN.	(Partially dismantled)	C
LOUISVILLE, KY.		C
MEMPHIS, TN.		DM
OSCEOLA, AR.		C
ROCKY MOUNTAIN, N.C.		DM
SAVAGE, MN.		C
STUTTGART, AR.	(?) (1 of 2 plants dismantled)	
TIPTONVILLE, TN.		????
VAN BUREN, AR.		C
WASHINGTON, IA.		DM

TOTAL 21 PLANTS

T009 2/27/89

APPENDIX II

Table I shows U.S. exports of cottonseed oil over the past 15 marketing years. During the first five years of this period, exports averaged 53% of total sales of cottonseed oil. In the most recent five years, this average has fallen to 35%. Such deterioration reveals the need for an Export Enhancement Program that is more tailored to the competitive situations faced by cottonseed oil.

TABLE I

U.S. EXPORTS OF COTTONSEED OIL

YEAR BEGINNING OCTOBER 1	MILLION POUNDS	PERCENT OF TOTAL SALES
1974	685	52.3
1975	500	52.6
1976	890	56.4
1977	758	52.4
1978	661	51.6
1979	728	52.5
1980	710	57.4
1981	847	55.5
1982	546	47.5
1983	303	36.3
1984	433	38.8
1985	442	40.5
1986	214	27.2
1987	250	33.8
1988p	375	35.4

Source: Economic Research Service, USDA.

Table 21: Vegetable Oil
Export Enhancement Program
Announcements and Sales
Summary 1/
(Metric Tons)

	ANNOUNCEMENT DATE	TOTAL PROGRAM	SOYBEAN	SUNFLOWER	COTTON	TOTAL SALES	BALANCE
Algeria	October 22, 1987 April 8, 1988	60,000 60,000	0 0	60,000 40,000	0 0	60,000 40,000	0 20,000
India	July 28, 1986 December 15, 1987	25,000 300,000	25,000 100,000	0 20,000	0 0	25,000 120,000	0 180,000
Morocco	October 13, 1987	60,000	39,000	0	0	39,000	21,000
Tunisia	September 24, 1987	60,000	60,000	0	0	60,000	0
Turkey	January 6, 1988	80,000	17,100	49,400	13,500	80,000	0
TOTAL		645,000	241,100	169,400	13,500	424,000	221,000

1/ As of April 11, 1989

SOURCE: U.S. DEPARTMENT OF AGRICULTURE

APPENDIX III

T011
4/26/89

APPENDIX IV

ECS Table 26 (Updated 3/1/89)

U.S. - ARGENTINE SOYBEAN OIL PRICE COMPARISON

Monthly Average Price Per Metric Ton
Crude Degummed Soybean Oil
FOB Vessel U.S. Gulf Ports and Argentine Ports

January - December, 1988

<u>MONTH</u>	<u>FOB U.S. GULF</u>	<u>FOB ARGENTINA</u>	<u>ARGENTINE DISCOUNT</u>
January	\$516	\$423	\$ 93
February	503	379	124
March	483	356	127
April	520	379	141
May	562	390	152
June	655	465	190
July	683	486	197
August	633	438	195
September	593	411	182
October	554	406	148
November	509	411	98
December	523	436	87
JAN - DEC. 1988 AVERAGE	\$561	\$415	\$146

T008
4/26/89
/pww

STATEMENT OF CONGRESSMAN ROY DYSON
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS
HEARING ON EXPORT ENHANCEMENT PROGRAM
APRIL 27, 1989
1302 LHOB

MR. CHAIRMAN. I WANT TO THANK YOU FOR SCHEDULING TODAY'S HEARING ON THE EXPORT ENHANCEMENT PROGRAM. I THINK THIS HEARING WILL SERVE AS A GOOD PLATFORM TO REVIEW THE EFFECTIVENESS OF THE EEP INITIATIVE AND TO CLEAR UP ANY CONFUSION SURROUNDING THE FUTURE OF THE PROGRAM. I, FOR ONE, STRONGLY SUPPORT THE CONTINUATION OF THIS EXPORT PROGRAM.

IN THE PAST, THE INABILITY OF EUROPE, ASIA, AND MANY THIRD WORLD NATIONS TO PRODUCE ENOUGH FOOD TO FEED THEIR POPULACE PROVIDED OUR FARMERS WITH A GUARANTEED MARKET FOR OUR SURPLUS COMMODITIES. THIS GUARANTEED MARKET NO LONGER EXISTS AND MANY REGIONS, SUCH AS EUROPE, ARE NOW COMPETITIVE IN THE WORLD EXPORT MARKET. BY 1985, AMERICAN FARM EXPORTS HAD DECLINED 40% FROM 1981 AND THE U.S. SHARE OF THE WORLD'S WHEAT MARKET HAD DECLINED FROM 41.9% TO 28.8%. IN ADDITION, FARM PROGRAM COSTS WERE SOARING AND GOVERNMENT STORAGE FACILITIES WERE OVERFLOWING WITH SURPLUS FARM COMMODITIES. EACH DAY MORE FAMILY FARMERS WERE BEING FORCED TO LEAVE THE FARM.

CONGRESS, REALIZING THE NEED FOR A NEW AGGRESSIVE FARM EXPORT POLICY, ESTABLISHED THE EXPORT ENHANCEMENT PROGRAM IN THE 1985 FARM BILL. THE EEP WAS AN ATTEMPT TO REGAIN THE U.S. SHARE OF THE EXPORT MARKET, STABILIZE FARM PRICES, AND REDUCE GOVERNMENT EXPENDITURES.

SINCE THAT TIME, THE EEP HAS ASSISTED THE USDA IN 102 FOREIGN SALES OF AMERICAN FARM PRODUCTS AT A VALUE OF \$8 BILLION. THESE SALES HAVE BEEN CRITICAL TO IMPROVING OUR FARM ECONOMY, INCREASING OUR EXPORTS, AND REDUCING OUR NATIONAL TRADE DEFICIT. AS OF LAST YEAR, THE EEP HAD HELPED U.S. FARM EXPORTS REBOUND TO \$36 BILLION, INCREASE THE U.S. SHARE OF THE WHEAT MARKET TO 42%, AND CUT AMERICAN FARM PROGRAM COSTS IN HALF.

I DON'T WANT TO GIVE THE IMPRESSION THAT THE EEP IS THE SOLE REASON FOR THE IMPROVEMENT IN THE U.S. FARM ECONOMY, BUT IT HAS CERTAINLY BEEN AN IMPORTANT FACTOR.

THEREFORE, WITH THE FARM ECONOMY REBOUNDING, EXPORTS INCREASING, CURRENT DEALS UNDER NEGOTIATION, AND THE GATT TREATY UNDER NEGOTIATION, I DO NOT BELIEVE IT IS WISE TO SUSPEND OR ELIMINATE THE EEP PROGRAM. MR. CHAIRMAN, LET ME THANK YOU ONCE AGAIN FOR HOLDING THIS IMPORTANT HEARING.



WASHINGTON OFFICE
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470 L'ENFANT PLAZA, S.W.
WASHINGTON, D.C. 20024
202-684-7575

President
DeVon R. Woodland
Blackfoot, Idaho

DIRECTOR,
WASHINGTON OFFICE
Charles L. Foster

April 24, 1989

The Honorable Dan Glickman
Chairman, Subcommittee on Wheat,
Soybeans, and Feed Grains
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Your joint announcement with Ranking Member Ron Marlenee of an early review of the Administration's current handling of the Export Enhancement Program was welcome news. In the National Farmers Organization we are primarily concerned with stability in our markets and an opportunity to bargain effectively for better prices at the farm gate for wheat and other major commodities.

The recent statements of Administration spokesmen and the USDA Backgrounder on the mid-term GATT review are confusing and misleading. We are concerned especially in two areas that are not specifically related to EEP activity but are quite pertinent to the future security of markets for our mid-range farm operators.

In the Backgrounder it is stated that spending under the EEP will not be frozen. The Secretary has requested that the Congress not limit the EEP spending in the next budget. In the same statement we are reminded that continuing negotiations will be conducted within the terms of a short-term agreement that relies upon a comparison of the country actions in terms of the Aggregate Measure of Support (AMS). The paper goes on to explain that participants may roll back support and protection for farmers in a combination of policy actions.

A number of questions arise from these hazy expressions. What is the relationship of the AMS to our devalued dollars and our prices in the future? Are these statements the means of communication with the Congress that binds you to accept whatever may be wrought through negotiation over the next twenty months?



Chairman Glickman
April 24, 1989
Page two

When the negotiated agreement comes to you for approval it will be too late to amend it or otherwise define the contents. You approved the Canadian Free Trade Agreement without knowing what it really portended for farmers. Are you going to be in the same position with the GATT?

We are equally disturbed with the negotiators' insistence that Sec. 22 be on the table. Quite frankly, we do not expect our negotiators to succeed in abolishing the European floating levy system. That being the likely case, we do not want Sec. 22 to be bargained away for some lesser gain in the final agreement.

We strongly suggest that the Congress advise the Administration that a new farm bill will be written in early 1990; that it would be well for the negotiators to respect the urgency of caring first for our domestic economy. Once that is assured, trade arrangements may be styled to our best national interests in separate commodity agreements.

We appreciate your interest in the EEP and the GATT negotiations. Hopefully, the Congress can provide some meaningful guidance before it is too late.

Sincerely,

Charles L. Frazier
Charles L. Frazier
Director, Washington Office

Testimony Submitted To

The Honorable Dan Glickman
and
The Subcommittee on Wheat, Soybeans and Feedgrains

Committee on Agriculture
Longworth House Office Building
United States House of Representatives

April 27, 1989

Concerning
A Review of the Status of the
Export Enhancement Program

Submitted By

Dan McGuire, Director
Nebraska Wheat Board

Mr. Chairman and Members of the Committee:

Thank you for conducting this review of what is clearly one of the most, if not the most, effective export-facilitating programs ever implemented by the United States government. Your subcommittee, the House of Representatives and the U.S. Congress as a whole is to be commended for authorizing and then implementing this program.

The Nebraska Wheat Board is a state agency responsible for protecting and stabilizing the wheat industry and the economy of the areas producing wheat. In that connection, we are very concerned about recent press reports and official remarks by Administration representatives that the Export Enhancement Program (EEP) had been suspended.

Since its inception, EEP has facilitated the sale of 59,180,500 metric tons (2.174 billion bushels) of U.S. wheat and the cumulative announced quantities of EEP wheat is 2.535 billion bushels. The export activity for wheat represented by the program speaks for itself, but that is only part of the success of EEP. The other major aspect of EEP's success is the role it played in reducing U.S. wheat inventories from 1.9 billion bushels in 1986-87 to the projected 549 million bushel carryover for June 1, 1989. Those reduced and more intelligent inventory levels are the major reason that wheat prices are holding in the \$4.00 to \$4.20 per bushel range to producers in Nebraska. That's obviously good news for our wheat producers and our state's economy, not to mention the benefits that

result from lower farm program costs as a result of higher wheat prices.

The Export Enhancement Program is a "real world" marketing tool which has allowed the United States to compete primarily against subsidized wheat exports from the European Community. However, EEP has even greater potential to facilitate U.S. wheat exports in a world trade arena dominated by state trading and government grain boards that utilize visible and invisible subsidies.

The recent GATT agreement to freeze trade subsidies at current levels and last week's expression of Congressional concern regarding the status of EEP suggest a need to broaden the current review of this program to include the various criteria which governed its operation during the last Administration. EEP is the single most important factor in our agricultural trade situation, and there is a strong perception among U.S. producers and exporters that it is being restrained for non-economic purposes. Clear parameters for USDA and interagency guidance that eliminate this perception should be established which allows USDA to operate the EEP program as a competitive tool within the current GATT framework.

The criteria adopted when EEP was initiated in 1985 includes two sets of conflicting objectives. In order to ensure the sound management and cost-effectiveness of the program, EEP sales were required to be budget-neutral and in addition to sales that would be made in the absence of the program (additionality). At the same time, the EEP was

narrowly targeted to compete only with countries which use direct export subsidies, particularly the European Community, and its use was prohibited in competition with developing exporters carrying large foreign debt (Brazil and Argentina) or countries which are perceived as not using direct export subsidies (Canada and Australia).

The effect of these targeting requirements has been to force the U.S. to compete directly with the EC for its share of selected third-country markets. The EEC's direct export subsidy program is designed to undercut the prevailing world price in order to eliminate production surpluses, without regard to the budget impact or additionality of each sale. To achieve the objective of competing with the EC on these terms, the U.S. has had to make concessions in the budget-neutrality and additionality objectives of the EEP program.

This conflict and these concessions were envisioned from the beginning days of the EEP activity. Indeed, on August 14, 1985, the EEP Advisory Committee met in Washington, D.C. to review implementation of the program. The program was then known as BICEP (Bonus Incentive Commodity Export Program). Ervain J. Friehe, a member of the Nebraska Wheat Board, served on the EEP/BICEP Advisory Committee at that time and proposed expansion of the effort to include an "across-the-board" approach to all U.S. customers. That proposal was never implemented.

The Catch-22 situation that the program is experiencing can be resolved in either of two ways: 1) EEP can be expanded

to include U.S. wheat sales to all wheat importing countries in competition with all wheat exporters. Approval of specific proposals would still be at the discretion of USDA and the interagency group. 2) Alternatively, the budget and additionality objectives of the program could be discarded in recognition of their incompatibility with targeting competition at the EEC.

It is important to resolve the inconsistencies in EEP objectives as soon as possible in order to establish a predictable export program for U.S. producers and U.S. exporters.

Thank you for this opportunity and for entering this testimony into the official hearing proceedings.

-6-
WHEAT EEP Cumulative Status
 (tons)

March 28, 1969

APR 4

	<u>Quantity Announced</u> -----	<u>Quantity Awarded</u> -----	<u>Balance</u> -----
Algeria (non-durum)	4,000,000	4,000,000	
(durum)	1,200,000	1,200,000	0
Bangladesh	900,000	762,500	137,500
Benin	45,000	30,000	15,000 (Closed)
Brazil	300,000	66,000	234,000 (Closed)
Bulgaria	350,000	150,000	200,000
Burundi	10,000	0	10,000
Canary Islands	100,000	24,000	76,000
China	13,200,000	11,990,000	1,210,000
Colombia	700,000	455,000	245,000
Egypt	6,064,500	5,765,250	299,250
Finland	250,000	146,000	104,000
India	3,000,000	2,000,000	1,000,000
Iraq	2,800,000	1,773,000	1,027,000
Jordan	725,000	515,000	210,000
Kenya	100,000	0	100,000 (Closed)
Lebanon	150,000	0	150,000
Mexico	1,400,000	1,131,700	268,300
Morocco	5,300,000	4,180,000	1,120,000
Nigeria	500,000	0	500,000
The Philippines	1,850,000	1,850,000	0
Poland	2,300,000	1,975,000	325,000
Romania	250,000	0	250,000
Senegal	210,000	100,000	110,000
Soviet Union	16,815,000	16,804,800	10,200
Sri Lanka	710,000	510,000	200,000
Tunisia	1,825,000	1,075,000	750,000
Turkey	1,006,600	804,600	202,000
West Africa Regional	595,000	388,750	206,250
Yemen	400,000	375,000	25,000
Yugoslavia	1,400,000	817,000	583,000
Zaire	360,000	266,900	93,100
	-----	-----	-----
	69,016,100	59,180,800	9,835,300

MD/gms

4357 L.P.

CRS Report for Congress

Will The Export Enhancement Program Survive?

Susan B. Epstein
Analyst in Food and Agriculture
Environment and Natural Resources Policy Division

March 1, 1989



Congressional Research Service • The Library of Congress

WILL THE EXPORT ENHANCEMENT PROGRAM SURVIVE?

SUMMARY

The Export Enhancement Program—EEP—(a major U.S. agricultural export subsidy program which uses Government-owned agricultural surpluses) has come under increased scrutiny due largely to the damaging drought of 1988. Once burdensome U.S. agricultural commodity surpluses have declined considerably since the drought and the enactment of EEP, affecting the availability of the U.S. Department of Agriculture (USDA) commodities not only for EEP but other competing demands and also raising prices.

These developments prompted three consumer groups to write a letter to the Secretary of Agriculture recommending the temporary suspension of the export subsidy program. The letter emphasized that Americans should not have to pay for the program, first as taxpayers and second as consumers when food prices rise, while foreign importing nations' food prices are subsidized by the U.S. program.

The U.S. Department of Agriculture responded that the program was proving to be a success at just the time the drought occurred. A suspension would hurt U.S. exports and the farm community, as well as send a signal to the European Community (at which the program was aimed) that the United States might not be an aggressive competitor in the long run, the Department argued.

While many in the Administration and the farm community contend that EEP is a successful program and should be continued despite low grain stocks, many of these claims of success cannot be fully tested.

At this juncture for EEP (as agricultural stocks are low), a review of EEP's costs and gains (whether quantitative or qualitative) might provide some insights into the worth of the program. To what degree has the program succeeded in attaining USDA's objectives? Has the program proven effective in encouraging the European Community (EC) to come to an agreement on multilateral agricultural policy reform? Congress might want to further investigate the answers to these questions and consider some possible options which range from continuing the program as it is, modifying the program, or eliminating it altogether.

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WILL THE EXPORT ENHANCEMENT PROGRAM SURVIVE?

INTRODUCTION

The Export Enhancement Program (EEP) was established by the Reagan Administration in May 1985¹ at a time when the situation facing the American farm community contrasted sharply with the current situation. In 1985, the U.S. Government owned large and growing grain surpluses (particularly of corn and wheat), domestic farm commodity programs were viewed by many as too expensive, and the United States appeared to have lost its competitive edge in foreign market sales. Also, America's farm communities were in a deep recession, and thus eager to increase agricultural exports to help bolster farm prices and income.

As fiscal year 1989 began, some farm problems that contributed to the creation of EEP had started to abate. Largely because of the 1988 drought (said by some climatologists to be the worst of this century), U.S. consumer interest groups and a well-known author on world population and food issues raised the concern that U.S. food stocks had dropped to dangerously low levels. Consequently, a number of these consumer groups called for the suspension of EEP. Food aid proponents and grain trading companies also voiced criticisms of the program, asserting that the currently operated export subsidy program could be improved to more favorably affect food aid and trade.

The U.S. Department of Agriculture (USDA) asserts that the export subsidy program will be retained, because it can be used to bargain for a reduction of other nations' trade barriers in the current multilateral trade negotiations. Policy makers from farm States and farm organizations also support continuation of the program as it is currently operated. However, the effects of the drought, combined with budgetary constraints, a new administration, and a new Congress in 1989, could contribute to EEP policy changes.

This paper presents the debate surrounding the EEP, reviews its objectives, operation and effectiveness, and reviews possible future policy options--whether to continue, alter or eliminate it.

¹The Administration utilized longstanding authority provided by the Commodity Credit Corporation Charter Act of 1948 (P.L. 80-89).

CURRENT DEBATE ON EEP

A number of organizations and analysts monitored agricultural stocks after the 1988 drought. A debate ensued regarding assessments of the drought's damage to agriculture. Estimates of the damage ranged from the most critical--that of Lester Brown, an author of world food and population issues, to the most reassuring--that of the U.S. Department of Agriculture. Lester Brown claimed that the world is in a more serious situation than in 1973 when food prices doubled and when available world grain stocks were estimated to feed the world only for 57 days.² In contrast, officials at the USDA claimed that the drought did not create a crisis, given the heavy overproduction of 1986/87. The administration disputed the idea that the level of grain stocks at the beginning of FY1989 was lower than during the early 1970s.³

At the end of August, three consumer groups--Community Nutrition Institute, Consumers Union, and the Consumer Federation of America of Washington--wrote to Richard Lyng, Secretary of Agriculture, expressing their concern about the relationship of domestic food availability, rising food prices and the Export Enhancement Program. Specifically, the letter discussed concern about subsidizing wheat exports within the Export Enhancement Program (helping to provide less expensive food overseas), while U.S. consumers faced rising food prices not only because of the drought, but perhaps to some extent because of the export promotion programs such as this one. The letter states, "USDA officials have characterized world grain conditions as a 'sellers' market, an indication that buyers are bidding for more wheat than is available and will pay the going world price to get it. No incentives are needed to keep them bidding."

Furthermore, the letter noted that the coming years may prove to be worse for food deficit regions of the world: "World food conditions are deteriorating, and food availability is likely to worsen in food deficit areas such as Africa. More people will be hungry, and the threat of starvation will increase. We recognize that the U.S. will be called upon to do as much as it can to prevent those conditions."

The consumer groups recommended that the USDA temporarily suspend EEP for two or three years until U.S. food prices and carryover stocks adjust, and future world food supply is more reliable. They also recommended that food assistance activities rank high among priorities for commodity utilization, suggesting that Americans "will generously share an even smaller food supply

²The Changing World Food Prospect: The Nineties and Beyond, by Lester R. Brown, *Worldwatch* Paper 85, October 1988, p. 5.

³Bumper Crop of Food-Supply Forecasts, by Jonathan Rauch, *National Journal*, September 17, 1988, pp. 2322-2326.

in those instances, but they will not support programs that take unfair advantage of their generosity. Arguing with the Common Market over who will supply flour most cheaply is not an act of generosity but a selfish gesture of one competitor to claim markets at any cost."

On September 29, 1988, William Bailey, then Deputy Under Secretary of International Affairs and Commodity Programs, responded in writing to the consumer groups' letter. First, he noted the original objectives of the program: 1--to help U.S. farmers regain export markets, 2--to fight unfair competition of other exporting countries in world markets, and 3--to encourage serious multilateral negotiations on agricultural trade problems. The letter went on to explain that "U.S. grain stocks are more than adequate to meet both domestic and export requirements for the coming year. The major effect of the North American drought is higher grain prices." The letter continued by saying:

...The biggest threat to U.S. food prices is not this year's drought--which USDA economists calculate will produce only a 1 percent rise in food prices.⁴ It is not the Export Enhancement Program, where the price impact is expected to be minimal. The biggest threat to food prices is the loss of overseas markets. That would force the United States to operate its agricultural sector at far less than capacity, reducing its efficiency and raising the cost of food production. The resulting higher food costs could be far more permanent than any that may accrue from the drought.

Furthermore, the USDA letter asserted that the heart of this issue is weighing short-term interests against long-term interests and argued that we are not in a "seller's market" from a long-term perspective. U.S. farmers must continue to be competitive in world markets. The letter stated:

...if we pull back from export competitiveness because of one year's temporary conditions, we will only add to our surpluses for later years...If the Export Enhancement Program were to be suspended at this time, we would alienate buyers who have only gradually returned to the U.S. market. This would be a mistake that would cost us long-term markets, reduce our leverage in trade negotiations, and assure our competitors they were correct in their assessment that the United States does not have the commitment to remain in the subsidy game when the going gets tough.

At about the same time that the consumer letter was sent to Secretary Lyng, the Wheat Export Trade Education Committee (WETEC) wrote a position paper in which it claimed that there would be no wheat shortage for U.S. consumers. "If we didn't harvest one bushel of wheat in 1988, we could

⁴The actual drought-induced price increase for 1988 turned out to be less than one percent, according to USDA.

meet all domestic U.S. needs through surplus stocks left from prior years." WETEC argued that the EEP has brought foreign competitors to the negotiating table and that to suspend the program now would not only cut U.S. exports, but would send a signal to the European Community that the United States cannot maintain a tough trade policy. Moreover, WETEC stated that farmers need exports more than ever now because of the difficult time they are experiencing as a result of the drought. If EEP were suspended, not only would farmers have less to sell, but they would also lose a significant portion of their market.⁵

Another group critical of current EEP operation, but not of its existence, is Cargill, Inc. (an international grain trading company). Cargill claims that the targeting of eligible countries continues to plague overall U.S. grain exports, because it is alienating those customers that are not eligible for EEP. Cargill contends that the goal of EEP, to counter EC unfair trade practices and markets lost to the European Community, is often forgotten in the implementation of EEP.

⁵The Export Enhancement Program, A Success Story For Wheat, WETEC, August 1988.

REVIEW OF EEP OBJECTIVES AND ACTIVITIES

Implementation and Objectives

In mid-May 1985 the USDA, using existing authority,⁶ announced the implementation of EEP to respond to congressional and farm community pressure for improving U.S. export competitiveness while reducing carryover stocks.⁷ The program was designed by USDA to offer surplus commodities as "in kind" bonuses to exporters who made sales of certain agricultural commodities in targeted countries. This enabled these exporters to offer the commodities at lower and presumably more competitive prices to overseas buyers. In 1986 "in kind" bonuses took the form of generic certificates which exporters could redeem (based upon the current value of the commodity and the value of the EEP transaction) for USDA Commodity Credit Corporation inventories of their choice.

Stated objectives of the export subsidy program were and continue to be:

- Additionality--to increase sales of U.S. agricultural exports above what would have occurred in the absence of this program;
- Targeted sales--to target specific markets where agricultural exporting countries, specifically the European Community (EC), subsidize their exports;
- Cost effectiveness--to maintain the cost effectiveness of the program. (That is, EEP sales should result in a net plus to the overall economy);
- Budget neutrality--to not increase Federal budget outlays beyond what would have occurred in the absence of the program.

The program was expected to achieve other unstated objectives such as reducing burdensome surpluses, increasing foreign-market shares, and encouraging the EC and others to agree to reform of agricultural trade

⁶Commodity Credit Corporation Charter Act of 1948 (P.L. 80-89).

⁷The Food Security Act of 1985 (P.L. 99-198), passed in December 1985, subsequently provided more explicit congressional authority and \$2 billion total funding for EEP through FY1988. The Food Security Improvement Act of 1986 (P.L. 99-260) reduced total funding to between \$1 billion and \$1.5 billion. The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), signed by the President August 23, 1988, authorized the continuation of EEP and provided \$2.5 billion through FY1992.

policies within the General Agreement on Tariffs and Trade (GATT) negotiations.

EEP Exports

Since EEP's implementation in mid-1985, wheat has dominated the list of exports. Other commodities promoted for export by this program include: wheat flour, barley, barley malt, a small amount of sorghum, rice, semolina, poultry feed and vegetable oil. Since the Food Security Act of 1985^a requires that at least 15 percent of the value of exports under this program (or any other export bonus program) consist of poultry, pork or beef meat or by-products, in 1986 the USDA began to offer bonus commodities for the export promotion of poultry meat, table eggs, and dairy cattle under the EEP.

Initially, the EEP targeted only those countries where the United States had lost market shares or feared losing future market shares because of "unfair trade practices" of other exporting countries (primarily the European Community). Throughout the first year of EEP operation, many viewed the program as not effective enough in exporting large quantities of agricultural commodities (especially wheat, which was at large surplus levels). After much debate, USDA decided that the Soviet Union (in 1986) and China (in 1987) should also be eligible for EEP-assisted commodity sales. EEP sales to these two countries (consisting only of wheat in both cases) account for more than 45% of total wheat exported under this program. To date about 63 countries have received U.S.-subsidized commodities under the EEP. (See table 1, page 23 for subsidies by commodity.)

EEP started slowly, but gained momentum in its second year of operation. In FY1985, only seven initiatives were announced, resulting in about 3.8 million metric tons (MMT) of grain sales. Nearly all of the initiatives announced that year were for the export promotion of wheat or wheat flour.

In FY1986, 60 initiatives were announced, resulting in sales of more than 8.3 MMT of grains (about 5 MMT of wheat, almost 1 MMT of wheat flour, 2.2 MMT of barley), 49,194 head of cattle, 544 million eggs, the equivalent of 25,000 metric tons of vegetable oil and 43,000 metric tons of poultry.

The export promotion program continued to grow in FY1987 when 65 initiatives were announced. Grain tonnage exported under EEP in FY1987 totalled 17.1 MMT, more than double what it was the previous year. Exports to the USSR and China that year largely explain the dramatic increase in exported tonnage in EEP. Grain exports again were comprised mostly of wheat and wheat flour (13.8 MMT). Barley exports increased over FY1986

^aThe Food Security Act of 1985 (P.L. 99-198). Title XI, section 1128, signed into law December, 1985.

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figures to 3.2 MMT. Other EEP exports that year included 97,682 metric tons of poultry, 11,394 head of cattle and 239 million eggs.

In FY1988, the USDA announced more EEP initiatives than in any previous year. Despite the fact that foreign sales transactions from the FY1988 announcements will occur for many months to come, the data thus far indicate continued growth over FY1987 levels. Total grain sales in FY1988 amounted to 23.8 MMT (22.8 MMT of wheat, 19,740 metric tons of wheat flour, 933,300 metric tons of barley), the equivalent of 291,000 metric tons of vegetable oil, 100,542 metric tons of poultry, 39,185 head of cattle and 103 million eggs.

EFFECTIVENESS OF EEP

EEP was initiated at a time when U.S. government-owned wheat inventories were 4 million metric tons greater than they were at the beginning of FY1989. Policy makers, farm organizations, and taxpayers were concerned about the cost of maintaining the inventories at the same time that they were observing the erosion of U.S. trade competitiveness and loss of market shares abroad. The Export Enhancement Program was designed to improve these problems of the American farm sector while creating an impetus for other agricultural exporting nations to negotiate the elimination of agricultural trade distortions, thereby establishing a "level playing field" for world agricultural trade.

Attempting to assess the merits of the program is difficult, since many claims of EEP accomplishments cannot be proven or refuted definitively. The claim that EEP sales are additional to sales that would otherwise have taken place in the absence of EEP is one such example, although studies on this are currently underway. The claim that it is an important tool to encourage EC agreement in GATT negotiations has not been demonstrated thus far. Nevertheless, the following is a brief status report on EEP.

Has EEP Increased U.S. Exports and Market Shares?

As recently as the 1970s, the United States typically maintained between 40 and 50 percent of the total world wheat and wheat flour trade. In 1985 and 1986, this figure dropped to below 30 percent. The continuing decline in farm exports during the early 1980s was one of the factors that led to the creation of EEP.

Table 2 (page 24) illustrates that the United States in 1987/88 regained the portion of world wheat trade that was typical of the early 1980s. The table indicates that from 1982 to 1988 Canada and Australia also have increased market shares of wheat exports, while the market shares for the European Community and Argentina have declined somewhat over the same time period. The USDA claims that the Export Enhancement Program has been one of several factors (such as lower commodity loan rates, relative world crop conditions, exchange rates, and sales to centrally planned economies) that has contributed to improving U.S. wheat trade competitiveness and the aggregate U.S. market share.⁹

Increasing U.S. market shares in certain individual foreign wheat markets as a result of EEP is less evident. Of the countries which have received the most EEP wheat (USSR, China, Egypt, Morocco, Algeria, and India), clear

⁹What Explains Wheat Export Rise?, by Kenneth Bailey, Agricultural Outlook, Economic Research Service, USDA, July 1988.

indication of gains can be seen only in Egypt, Algeria, and Morocco. The market share gains resulting from EEP in the USSR, China, and India are inconclusive; in the case of China, both absolute volume of imports and U.S. market share have clearly dropped; in the case of the Soviet Union, the U.S. market shares have fluctuated so dramatically since the inception of EEP, that the recent 27 percent market share is not necessarily an indication of effectiveness of EEP; and the U.S. market share in India increased from 52 percent in 1983/84 to 100 percent in 1986/87, but the absolute volume of total wheat imports has declined significantly. (See tables 3 through 8, pages 25-30.)

Three recent studies have investigated the contribution of EEP to increased volume of U.S. wheat exports. A USDA study done in 1988, using an econometric model of world wheat trade, concluded that between 1985/86 and 1988/89, EEP will have accounted for a 10 percent increase in U.S. wheat exports.¹⁰ A 1988 university study, using a different econometric model, indicated that EEP increased existing wheat sales by only 2 to 3 percent during 1985 and 1986.¹¹ And a forthcoming USDA study found that EEP has increased U.S. agricultural exports between 10 and 30 percent, depending on the assumptions regarding EC response to the program.

The degree of additionality of EEP sales is an unresolved issue that would contribute greatly to proper evaluation of this export program, particularly in an era of increasing budgetary concerns and farm budget constraints. For example, if all exports under EEP would have taken place without the program—zero additionality—then costs for EEP have been incurred unnecessarily since 1985. While studies show that wheat exports have generally increased since 1985 when EEP was implemented, the question of additionality (what portion of these exports would not have occurred in the absence of the EEP program) has not been adequately addressed. However, numerous studies on this issue have recently been initiated.

According to previously cited studies, EEP might have increased to some degree, U.S. market shares of agricultural exports, but exactly how much in the aggregate that can be attributed solely to EEP is unclear. While EEP increased U.S. market shares in some EEP-eligible markets, it likely caused displacement of some non-EEP sales in the EEP-eligible country. Moreover, EEP seems to have changed (at least in the short term) trade flow patterns which may have changed international price relationships. Therefore, some U.S. commercial sales to noneligible EEP markets also may have been

¹⁰What Explains Wheat Export Rise?, by Kenneth Bailey, Agricultural Outlook, Economic Research Service, USDA, July 1988.

¹¹A Simulation Model of the U.S. Export Enhancement Program for Wheat Employing Nash's Bargaining Solution, Ann Hillberg Seitzinger and Philip Paarlberg, Doctoral Dissertation, Purdue University, May 1988. This study is currently being updated to include 1988/89 data.

displaced by exporting countries whose commercial prices may have become more competitive because of the changing price relationships.¹²

Has EEP Reduced Government Stocks?

One of the objectives of the program was to help reduce the stocks of Government-owned wheat, thus reducing Government costs of storing it while ameliorating price and income-depressing effects on the domestic market. At the time that EEP was initiated, (marketing) year-end government-owned stocks of wheat had jumped dramatically from about 5 million metric tons in May of 1984 to over 10 million metric tons in 1985 (See table 9, page 23). During the four-year operation of EEP, Government-owned stocks rose to an all-time high in 1987 of 22.6 million metric tons and then declined to levels more similar to those of the early 1980s.

Year-end stocks result from a combination of activities throughout the year, including beginning stocks, that year's production level, domestic use, imports, and exports. To say that earlier year increases in carryover stocks or the 14.9 million metric ton drop in year-end stocks in May 1988 over the same time the previous year are a direct result of only EEP exports would be incorrect. However, wheat export levels at marketing year-end 1988 over 1987 increased by 16.1 million metric tons, while carryover stocks decreased by 14.9 MMT. Therefore, it would be reasonable to conclude that EEP did contribute to the reduction in Government-owned stocks, although the exact extent is unclear.

Has EEP Proved Successful as a Negotiating Tool?

One original purpose of EEP was to encourage the EC to negotiate for eliminating agricultural trade distortions (i.e., agricultural subsidies and nontariff barriers) in order to create a more level playing field for agricultural trade. The Administration believed that EEP would reduce U.S. prices, making U.S. agricultural commodities more price-competitive and at the same time costing the EC more in export subsidies to compete in the world market. With resulting increases in U.S. competitiveness and EC budgetary costs, many asserted that the European Community would be more willing to negotiate the elimination of trade-distorting agricultural subsidies.

The Export Enhancement Program was established 4 months before the first meeting in the current round of multinational trade negotiations (MTN) in Punta del Este, Uruguay September 1986. It might be claimed that the EEP contributed to conditions which were favorable for the MTNs to get underway. However, there is no evidence of progress in the negotiations that

¹²The U.S. Export Enhancement Program for Wheat, by Ann Hillberg Seitzinger and Philip Paarlberg, Purdue University, June 1986, p. 6.

can be attributed to the EEP. In December 1988, just after the midterm meeting on the negotiations, the United States and the European Community seemed to be further away from agreement on agricultural policy reform than they were when the negotiations began in 1986.

Furthermore, some are suggesting that the effectiveness of EEP as a negotiating tool will be increasingly eroded. While the U.S. program may have caused some loss of EC export revenue and increased budgetary costs,¹³ these effects are waning. The world's reduced wheat stocks will increase the world price of wheat, at the same time that the EC completed a successful crop year. World demand for wheat is up; prices are up; supplies are down (but not in the EC). These factors suggest that the EC can increase its market share without heavy budgetary outlays for export subsidies, at least in the coming year.

Has EEP Affected Commodity Price or Supply?

EEP has the potential of either raising or lowering domestic commodity prices, particularly wheat, since that is the most exported commodity in the program. Increased exports would have the effect of raising U.S. domestic prices of the exported commodity. However, releasing surpluses onto the domestic market in the form of bonuses would, by itself, have a price-lowering effect. Price effects resulting from EEP depend on which quantity is greater--the quantity of exports or the quantity of bonuses released. According to some estimates based on 1985, 1986 and 1987 EEP data, wheat prices have increased about one to two percent, attributable to EEP.¹⁴ Therefore, it arguably can be concluded that price effects of EEP exports are greater than those of the released surplus commodities. Consumers, bakers, retailers, as well as feeding organizations that purchase wheat for distribution to the needy are negatively affected by any resulting price increases.

There is no evidence, however, that EEP has either reduced domestic supply or competed with foreign or domestic food aid programs for surplus

¹³The U.S. Export Enhancement Program for Wheat, By Ann Hillberg Seitzinger and Philip Paarlberg, Purdue University, June 1988.

¹⁴A Simulation Model of the U.S. Export Enhancement Program for Wheat Employing Nash's Bargaining Solution, by Ann Hillberg Seitzinger and Philip Paarlberg, Doctoral Dissertation, Purdue University, May 1988.

commodities.¹⁶ Since carryover stocks of EEP-eligible commodities have been more than adequate for this and all other programs, any quantity effects that might have otherwise occurred were avoided. With the reduced carryover stocks anticipated in FY1989, however, U.S. food price increases could continue as a result of the combined effects of the drought, the EEP and other export programs such as P.L. 480.¹⁶

What Costs Are Associated With EEP?

In 1985 Congress authorized \$2 billion for the 3-year term of EEP. This figure was later revised to be between \$1 billion and \$1.5 billion. Since the commodities are surplus and were previously acquired by the Commodity Credit Corporation, there is no appropriation for this program. Therefore, as EEP does not require any new appropriation, it has no immediate effect on the budget deficit. However, there are other costs and benefits of EEP.

Other costs include opportunity costs--the value of foregone alternative uses for the commodities. As stocks decrease and agricultural commodity prices increase, the opportunity cost of EEP also increases. Another cost may include any damage done to foreign trading partners that either are not eligible for EEP commodities or compete with U.S. agricultural exports.

Benefits of this program include the economic activity that is created by increased exports and increased farm activity, not to mention the reduced cost of storage of the carryover stocks. According to USDA officials, savings resulting from EEP benefits such as lower Government costs for grain storage, net increases in Gross National Product, and savings from fewer low-interest loans being made, actually pay for the cost of the EEP program and should not be considered a budget burden.¹⁷

In contrast, however, consumer groups and others suggest that benefits from EEP beyond actual exports cannot be accurately quantified. Therefore,

¹⁶There appears to be evidence that a separate export subsidy program, the Dairy Export Incentive Program (DEIP), subsidized dairy exports which may be linked to the unavailability of dairy products in FY1988 and FY1989 for donation within Section 416 of the Agricultural Act of 1949 and P.L. 480 title I programs, according to Foreign Agricultural Service sources. While this program is not connected to EEP, it might be argued that this situation demonstrates that export subsidies can reduce the availability of commodities for other programs.

¹⁶It should be noted, however, that at the end of October, 1988, the President announced the availability of up to 1.5 million metric tons of wheat from the Food Security Wheat Reserve for foreign donation in FY1989 to alleviate the tight commodity availability for foreign food aid.

¹⁷Inside U.S. Trade, September 30, 1988, p. 18.

they believe the claims of benefits outweighing costs of the program are not able to be proven. Even if calculations were possible, these critics believe that direct benefits from EEP may not equal the \$2.3 billion that USDA says the program has cost to date (representing the value of the commodities provided). Some opponents contend that the \$2.3 billion in commodities could have been put toward other more effective programs or uses.

CONTINUE, ALTER OR ELIMINATE EEP?

As conflicting views regarding the Export Enhancement Program from consumer interest groups and farm producers are placed before policy makers in the 101st Congress, the following are among the range of policy options that could be considered:

Continue the current program. One policy option is to continue the program as it currently is operated. The Administration and many farm organizations claim that the program should not be changed or eliminated at this time. The primary reason cited is that the GATT negotiations will continue for two more years. The midterm review of GATT in December 1988 revealed that little, if any, progress has occurred. EEP should be continued in order to demonstrate to the European Community that the United States will continue to aggressively pursue fair trade practices. They contend that if the Government can operate the program cautiously until commodity stocks are rebuilt from the drought-depressed levels (which, they say, could be mid-1989), then agricultural exports in particular, and the country as a whole, will benefit in the long run.

Other EEP-interested parties (such as EEP commodity producers and trade negotiators) express concern that it may not be costing the EC as much as is necessary to encourage a change in its current agricultural trade practices. Moreover, they believe that 1989 will be even less costly for the Europeans to export agricultural products and gain market shares, because the North American drought has reduced U.S. and Canadian wheat production and raised world market prices, while in Europe wheat harvests generally were good in 1988.

Those likely to oppose this option, including consumer groups, export trading companies, and producers of non-EEP commodities, fear that the political popularity of the current export subsidy program may make it a permanent part of U.S. agricultural policy regardless of its economic impact. U.S. farm producers could become overly dependent on EEP to make their products competitive in the export markets. Since many Members of Congress consider a strong agricultural sector important to local economies, it is conceivable that policy makers may find it compelling to continue to reauthorize the program, regardless of the program's net cost or benefits, they assert.

Expand EEP. Since 1985, EEP has been a targeted export subsidy program targeting markets and specific commodities in order to counter unfair EC trade practices. Some producers of ineligible commodities, export trading companies, agribusinesses, and policy makers have urged altering the program to make all farm commodities eligible for export subsidies and allow all EEP-subsidized exports to be available for all countries that import U.S. agricultural products.

Administration officials state that this option would be expensive to manage as effectively as the current program. They cite studies that indicate the current targeted subsidy program is more efficient and effective.¹⁸ Also, domestic and foreign food donation organizations would likely oppose this option if EEP depleted commodities previously available for the needy. Taxpayers might oppose this option if it meant a costlier item in the budget.

Reduce EEP. Another policy option might be reducing program funding or further limiting the eligible commodities, at least when surpluses are low. Many U.S. consumer groups and domestic, as well as foreign, food donation organizations would likely support consideration of this proposal. Either EEP's annually authorized level of spending could be reduced, or some type of trigger mechanism could be imposed to limit availability of commodities when domestic stocks are low. A base level of carryover stocks might be determined to allow for meeting traditional U.S. consumer demand and food program allocations of recent years. Below the base level, a particular commodity might not be made available for EEP. This might prevent reduction of carryover stocks to levels that could negatively affect U.S. consumers and programs through unavailable commodities or higher prices.

Administration officials and farm organizations might counter that this proposal would make the program less effective as a tool for changing EC trading practices. Some agribusinesses and export trading companies might not favor any restriction of the EEP, because it would imply a reduction in production and export transactions.

Suspend the entire program temporarily. Reacting to the 1988 drought and subsequent reduction in wheat carryover stocks, the three consumer groups recommended to Secretary Lyng that, "at the very least, USDA should suspend general use of the Export Enhancement Program for wheat and other food and feed commodities in the year ahead." The groups further suggested suspending the program even longer, for two to three years, so that stocks and prices can readjust from present levels. Food aid organizations might also support this proposal, since it appears that commodity availability for these programs could be limited in the future and resulting higher commodity prices would reduce the effectiveness of domestic and international aid programs. In addition, some may view this option favorably, as it may save some Government expenditures in the year or two of suspending the program.

USDA officials oppose this recommendation saying that, "if we pull back from export competitiveness because of one year's temporary conditions, we

¹⁸Agricultural Export Subsidies, Philip C. Abbott, Philip L. Paarlberg and Jerry Sharples, *American Journal of Agricultural Economics*, Volume 69, No. 4, Nov. 1987, pp.723-732.

will only add to our surpluses for later years... [Suspending EEP] would be a mistake that would cost us long-term markets, reduce our leverage in trade negotiations, and assure our competitors they were correct in their assessment that the United States does not have the commitment to remain in the subsidy game when the going gets tough."¹⁹

Also opposing suspending EEP are farm organizations that represent producers of eligible commodities, export trading companies, and agribusinesses, all of which could lose sales activities if the program were suspended.

Eliminate EEP permanently and change domestic farm programs. Some export trading companies and certain commodity interest groups have suggested eliminating EEP and simultaneously changing the U.S. domestic farm programs so that farmers could base their activity on market signals, thereby lowering commodity prices to be more competitive in world markets. One suggestion included applying the marketing loan concept to all commodities²⁰; another suggested simply ending supply management programs.²¹ Both would result in market forces working and U.S. commodity prices becoming more in line with those of foreign producers.²² Food aid interests might also support this proposal if lower food prices resulted, since that would suggest that more food could be distributed to the needy for the same program costs.

Farm groups producing EEP-eligible commodities, as well as USDA officials, do not favor this option for a number of reasons. One concern is the potential effect on farm incomes, which they believe will decline if Government price support programs are changed drastically. Another concern expressed is that such a drastic change in domestic programs could have a dramatic effect on the structure of American farming, although the full impact

¹⁹USDA letter by William C. Bailey, Deputy Under Secretary International Affairs and Commodity Programs, to Rodney Leonard, Consumer Nutrition Institute, September 29, 1988.

²⁰See CRS report, *Agricultural Exports: Does Administration Effort Match Potential?* by Susan B. Epstein and Charles E. Hanrahan, September 3, 1987, p. 29.

²¹Cargill favors, specifically, ending acreage set-asides and simultaneously cutting export prices across-the-board. *Agri-view*, the WEFA Group, October 6, 1988.

²²For more information on marketing loans see CRS Report No. 87-530 ENR, 1987 Commodity Program Options: Expanding the Marketing Loan, by Carl Ek, Jeffrey Zinn, A. Barry Carr, May 22, 1987; for more information on decoupling see CRS Report 88-604 ENR Decoupling Farm Programs, by Carl Ek, September 9, 1988.

of this on the U.S. economy cannot be fully determined at the present time. A third concern with this concept is that the United States should not pursue it unilaterally.²³ Many assert that this proposal could be considered only if multilateral negotiations achieve worldwide agricultural policy reform.

²³Unilateral elimination of domestic commodity programs and export subsidies by the United States could place the American farmer in the position of being the only free agricultural trader. Subsequently, the United States may have to operate in international markets which are highly distorted by foreign competitors. See EK, CRS Report 88-604 ENR, pp. 12 and 13.

CONCLUSION

The 1988 drought prompted renewed debate on the Export Enhancement Program. Consumer interest groups asserted that agricultural stocks were drastically reduced as a result of the drought. They argued that there is little justification for U.S. taxpayers subsidizing foreign consumers during in a seller's market. The fear is that EEP subsidies will have to be higher, U.S. food prices will be higher, stocks will be further reduced by EEP, and other programs, such as domestic and foreign food aid programs, may be curtailed.

USDA officials responded to the consumer groups' fears by claiming that stocks were not at unprecedented low levels and would be sufficient for demands in 1989. Moreover, they asserted that to end the program now would be detrimental not only to U.S. farmers, but to achieving progress in the ongoing multilateral trade negotiations.

While the present administration, farm producer groups, and a number of policy makers applaud the results, thus far, of the EEP, some of the claims the USDA and certain farm groups have offered as proof that the program is a success (such as EEP exports being additional, and achievement in the current round of trade negotiations), cannot be clearly proven or refuted. Thus, a degree of uncertainty exists as to the actual effectiveness and the cost of the program. Furthermore, while the USDA and producers of EEP-eligible commodities generally are happy with the program, there are other groups in addition to U.S. consumer groups--some food aid interest groups, U.S. bakery businesses and exporting companies--that are suggesting changes in the program.

In determining whether EEP might be continued as it currently exists in the face of budget constraints, reduced commodity inventories, and political pressures by some interest groups, the effectiveness of the program in achieving its intended objectives should be more fully assessed. Currently, this task is difficult, given the unquantifiable nature of many of the program objectives.

Some questions to be addressed might include:

- Do the commodities exported under the EEP represent truly additional sales or might the sales have taken place regardless of the subsidized price?
- Have the EEP-eligible countries used the program as leverage against the United States to negotiate lower prices or else threaten to purchase from other exporting countries?
- Should EEP sales take priority over P.L. 480 commodity allocations in USDA estimations of available commodities for each program?

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- Is there evidence that EEP is or will be an effective tool to achieve progress in agricultural trade negotiations in the GATT?
- Do costs to U.S. taxpayers and consumers of the program outweigh benefits, particularly when U.S. domestic stocks are low?
- Will EEP exports contribute to higher U.S. food prices?

These are some issues the 101st Congress might want to explore in evaluating the program's success, particularly in light of the ongoing budgetary constraints, as well as the recent reduction in carryover stocks resulting from the 1988 drought.

TABLE 1. Value of EEP Bonuses, By Commodity, FY 1985-1988¹

Wheat	\$1,499.0 million
Wheat flour	171.6 million
Semolina	12.4 million
Feed grains (barley or sorghum)	235.8 million
Barley malt	16.0 million
Rice	15.7 million
Mixed poultry feed	16.6 million
Frozen poultry	99.0 million
Vegetable oil	151.2 million
Dairy cattle	92.8 million
Eggs	10.0 million
Total	\$2,320.1 million

¹Telephone conversation with Larry McElvain, Foreign Agricultural Service, USDA, October 26, 1988.

TABLE 2. Market Share of World Wheat and Wheat Flour
Exports of Major Exporters, July/June Years

<u>Year</u>	<u>U.S.</u>	<u>EC-12*</u> (percentages)	<u>Canada</u>	<u>Australia</u>	<u>Argentina</u>
1982/83	40	17	22	8	8
1983/84	38	15	21	10	10
1984/85	36	17	18	15	7
1985/86	29	18	20	19	7
1986/87	31	18	23	16	5
1987/88	42	14	23	12	4

*The 12-nation members of the European Community include Belgium, France, Italy, Luxembourg, the Netherlands, West Germany, Denmark, Ireland, the United Kingdom, Greece, Spain and Portugal.

Note: Percentages do not total 100 percent due to omission of small suppliers.

Source: World Situation and Outlook Report, Foreign Agricultural Service, U.S. Department of Agriculture, August 1986 and August 1988.

TABLE 3. Algeria's Total Wheat Imports, Imports from U.S. and U.S. Market Share, 1980-1987

<u>Calendar Years</u>	<u>Total Wheat & Flour Imports</u> (1,000 Metric Tons)	<u>Imports from U.S.</u> (1,000 Metric Tons)	<u>U.S. Market Share</u>
1980	2,445	255.0	10%
1981	3,001	673.4	22%
1982	2,985	475.9	16%
1983	3,200	655.8	20%
1984	3,000	595.8	20%
1985	3,100	844.1	27%
1986	3,496	1,679.6	48%
1987	3,843	1,958.0	51%

Source: Middle East and North Africa Outlook and Situation Report, Economic Research Service, USDA, 1981-1987 issues and telephone conversation with John Parker, ERS, USDA, October 25, 1988.

TABLE 4. Egypt's Total Wheat Imports, Imports from U.S.
and U.S. Market Share, 1980-1987

<u>Calendar Year</u>	<u>Total Wheat & Flour Imports</u> (1,000 Metric Tons)	<u>Imports from U.S.</u>	<u>U.S. Market Share</u>
1980	5,423	1,684	31%
1981	5,878	2,487	42%
1982	5,692	2,288	40%
1983	6,600	3,340	51%
1984	7,040	2,051	29%
1985	7,082	2,173	31%
1986	6,609	2,765	42%
1987	7,077	3,430	48%

Source: Middle East and North Africa Situation and Outlook Reports, Economic Research Service, USDA, 1981-1988 issues and telephone conversation with John Parker, ERS, USDA, October 25, 1988

TABLE 5. Morocco's Total Wheat Imports, Imports from U.S. and U.S. Market Share, 1980-1987

<u>Calendar Year</u>	<u>Total Wheat & Flour Imports</u>	<u>Import from U.S.</u>	<u>U.S. Market Share</u>
1980	1,693	533	31%
1981	2,483	754	30%
1982	2,700	798	30%
1983	1,820	1,255	69%
1984	2,643	2,536	96%
1985	2,400	451	19%
1986	1,500	1,314	88%
1987	2,140	2,040	95%

Source: Middle East and North Africa Outlook and Situation Report, Economic Research, USDA, 1981-1987 issues and telephone conversation with John Parker, ERS, USDA, October 25, 1988.

TABLE 6. U.S.S.R. Total Wheat Imports, Imports from U.S.
and U.S. Market Share, 1980-1987

<u>Calendar Year</u>	<u>Total Wheat Imports</u> (1,000 Metric Tons)	<u>Imports From U.S.</u>	<u>U.S. Market Share</u>
1980	14,926	1,769	12%
1981	17,823	2,082	23%
1982	21,011	4,295	20%
1983	23,001	4,836	21%
1984	28,162	7,646	27%
1985	21,400	1,068	5%
1986	15,700	---	0%
1987	18,097	4,847	27%

Source: U.S.S.R. Outlook and Situation Report, Economic Research Service, USDA, 1981-1987 issues and telephone conversation with Kathryn Zeimetz, ERS, USDA, on October 25, 1988.

TABLE 7. China Total Wheat Imports, Imports from U.S.
and U.S. Market Share, 1980-1987

<u>Calendar Years</u>	<u>Total Wheat Imports</u>	<u>Imports from U.S.</u> (1,000 Metric Tons)	<u>U.S. Market Share</u>
1980	11,792	6,369	54%
1981	12,691	7,617	60%
1982	13,258	6,870	52%
1983	11,340	2,458	22%
1984	9,608	4,067	42%
1985	5,599	816	15%
1986	5,745	34	---
1987	13,444	1,916	14%

Source: China Situation and Outlook Reports, 1981-1987 and telephone conversation with Francis Tuan, ERS, USDA.

TABLE 8. India's Total Wheat Imports, Imports from U.S. and U.S. Market Share, 1980-1987

<u>July/June Years</u>	<u>Total Wheat Imports</u> (1,000 Metric Tons)	<u>Imports From U.S.</u>	<u>U.S. Market Share</u>
1980/81	50	38	76%
1981/82	2,265	1,515	67%
1982/83	3,700	3,700	100%
1983/84	2,500	1,290	52%
1984/85	150	64	43%
1985/86	50	32	64%
1986/87	410	410	100%

Source: South Asia Outlook and Situation Reports, 1981-1987 and telephone conversation with Sara Schwartz, ERS, USDA, October 25, 1988.

TABLE 9. Government-Owned Ending Stocks of Wheat,
Marketing Years ending May 31

<u>Marketing Year</u>	<u>Government-owned Stocks</u> (Million Metric Tons)
1975	—
1976	—
1977	—
1978	1.2
1979	1.4
1980	3.9
1981	5.4*
1982	5.2*
1983	5.2*
1984	5.1*
1985	10.3*
1986	16.4*
1987	22.6*
1988	7.8*

September 1, 1988¹

*Includes 4 million metric tons of wheat in Food Security Reserve.

Source: Wheat Situation and Outlook Yearbook, Economic Research Service,
U.S. Department of Agriculture, 1979, 1982, and 1988 issues.

¹Telephone conversation with Ed Allen Crops Branch, Economic Research
Service, U.S. Department of Agriculture, October 14, 1988.

REVIEW OF THE EXPORT ENHANCEMENT PROGRAM

MONDAY, JULY 31, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in room 1302, Longworth House Office Building, Hon. Dan Glickman (chairman of the subcommittee) presiding.

Present: Representatives Johnson, English, Volkmer, Penny, Nagle, Jontz, Long, Roberts, Smith, Schuette, and Grandy.

Staff present: Vernie Hubert, associate counsel; Alice Devine, minority associate counsel; Glenda L. Temple, clerk; Greg Frazier, Anne C. Keys, Anita R. Brown, James A. Davis, Thomas H. Lederer, and Cliff Humphrey.

OPENING STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Why don't we go ahead and begin the hearing. I appreciate everybody coming today. This afternoon, the subcommittee will conduct the second of its hearings to review the status of the Export Enhancement Program.

Under Secretary Crowder will bring us up to date on USDA's review of the program, and the General Accounting Office will provide the subcommittee with findings of a review it has underway on the program.

At the outset, let me say that I have been a strong supporter of the EEP. I recognize its possible effects on the farm economy and the leverage it is designed to provide us in the present round of multilateral trade negotiations.

It was with those two factors in mind that I offered the amendments finally contained in the 1988 trade bill to increase the authorized funding for the program, and to extend that authorization through the end of the next fiscal year.

Notwithstanding my strong support of the program, I am concerned about certain aspects of it. Quite frankly, when I learned before the last hearing the subcommittee held on this subject that a fugitive from U.S. justice has been participating—apparently rather successfully judging from the subsidies his firm received—in the EEP, I was alarmed.

About 2 years ago, this subcommittee began hearings on the Commodity Credit Corporation's weekly wheat auction. At that

hearing, I likened those activities and the activities of the EEP program to a government grain board—a very few number of individuals making very, very significant decisions about the marketplace and about the use of tax dollars in private. Most everyone scoffed at me then, but I will suggest to my critics that that is what has evolved.

The EEP may be extremely successful. There is certainly at least some relationship between the active use of the program and a substantial increase in wheat exports.

However, unless this subcommittee has access to information about the program, we cannot make an independent judgment about its effectiveness and whether taxpayers should continue to commit millions and millions of dollars to the program.

It may not be the most efficient way to do business—that is under the glare of public scrutiny—but that is how we do things in this country. Unless programs and policies are subjected to that test, allowing fugitives to profit at the expense of taxpayers can result, and apparently has.

It is my hope that as the subcommittee prepares to write the 1990 farm bill, of which agricultural trade and export promotion programs will no doubt be of critical importance, we can complete a thorough assessment of the one export promotion program which has received perhaps the most attention since the enactment of the last farm bill, the Export Enhancement Program.

That is the purpose of today's hearings, to determine what policies, what procedures, what restrictions, what regulatory authority the Department of Agriculture operates under when it implements the Export Enhancement Program.

Who knows about those authorities? How are decisions made? In closed-door rooms or in open-door meetings? To what extent are beneficiaries of the EEP program given advanced information about EEP sales, and to what extent are nonparticipants not given information about those sales?

To what extent is inside information potentially available which will allow users to take advantage of the program or not? Some of these concerns may be real, some of them may be not happening at all.

Actually, we hope that they are not happening at all. But the question is in terms of how this program operates are things that I think require us to do an appropriate deal of oversight right now.

Nobody expects and nobody hopes the kinds of things happening in the HUD hearings will replicate themselves anywhere else in the Government. But the way for us to find out if things are operating properly is to do the necessary kind of oversight, and that is the purpose of this hearing today.

Before I call on Under Secretary Crowder, and we are delighted to have you here today, I would ask if Mr. Smith wants to make an opening statement.

**OPENING STATEMENT OF HON. ROBERT F. (BOB) SMITH, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON**

Mr. SMITH. Mr. Chairman, this investigation may well be proper, even if nothing is found. But I want to reemphasize what I think

you made obvious in your statement, that the Export Enhancement Program has really been the only tool, even though it is minimal, in our opportunity to try to meet world competition.

It has been very successful. To give an example, as I often do, Mr. Chairman, the European Community last year spent \$11 billion in their support of exports. And I believe our budget was around \$700 million, even though we didn't spend that much.

Therefore, in the face of glaring subsidies by foreign countries, we have been able to parley a small amount of money in the Export Enhancement Program to great benefit to move the stocks in this country that we are all attempting to move out of storage.

So, it has been very successful. I would hate to see it tarnished by any reason or for any reason, and therefore, I am very interested in this discussion, and let's get it on the table and get it out and let's make sure that we don't ruin a good program by some sort of management problems.

Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you, Mr. Smith.

Mr. Grandy.

**OPENING STATEMENT OF HON. FRED GRANDY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. GRANDY. Thank you, Mr. Chairman, I commend you for continuing these hearings on the Export Enhancement Program. I, too, am a strong supporter of the program, but I would remind this committee that since we last met on this issue, we have arbitrarily decided in our reconciliation agreement to cap this program at \$500 million, which I fear will drive up the cost of exports.

Now, coming from a State that predominantly exports corn, the Export Enhancement Program has not materially affected my constituents perhaps as much as yours, Mr. Chairman, or Mr. Smith's. But I will say, if we decide that part of our budget reconciliation involves raising the cost of exports, and we increase the costs of exports by implementing provisions that were attached to our foreign authorization bill. I am wondering when we reach a point where we will limit our ability to export. So, I am concerned about that phenomenon, and will look forward to Mr. Crowder's responses to that.

Increasingly, Mr. Chairman, I am also concerned that although the Export Enhancement Program is obviously good for this country, we seem to be caught globally in a crossfire between the European Community, whose subsidies we are trying to redress, and the nonsubsidizing countries, who are perhaps at least in their minds abused by our EEP program.

I will be curious to see what the Department's feeling is about the global impact of continuing the EEP program. Thank you, Mr. Chairman.

Mr. GLICKMAN. Thank you.

Without objection, Mr. Marlenee's statement will appear immediately following mine.

I would like to hear from you first, Mr. Crowder, and then before we get to questions, I would like to hear from the GAO and then I

would like the subcommittee to be able to—oh, I am sorry, Mrs. Long. Excuse me.

Ms. LONG. Nothing, thank you, Mr. Chairman

Mr. GLICKMAN. I apologize. At least you share your feelings. So, why don't I ask—I will tell you what, let's hear from you, Mr. Crowder, and then I think I would like Mr. Mendelowitz to testify next, and then we will get to questions from everybody here.

So, Mr. Crowder, why don't you go ahead and begin?

**STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY,
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S.
DEPARTMENT OF AGRICULTURE**

Mr. CROWDER. Thanks, Mr. Chairman.

I am pleased to be back before you to discuss the Export Enhancement Program and to answer questions you might have concerning the program and its management. As you know, I learned very early in my tenure here how important the program is to you and how concerned you are with its management.

The program and the way it is managed are also very important to our farmers, the trade, our customers, and our competitors. Today, I would like to discuss the following with you:

The recent Export Enhancement Program activity; the results of the Department's study on the questions of cost-effectiveness and budget neutrality; and additionality, the status and content of our review of future program objectives and management; and finally, questions you might have.

From May 1985 through last Friday, 104 EEP initiatives had been announced, targeting 65 countries and 12 commodities. The total value of EEP sales to date is \$8.4 billion, with bonuses of \$2.6 billion in either Commodity Credit Corporation commodities or commodity certificates.

Since April 27, when I last testified before the subcommittee, seven EEP initiatives have been announced covering five commodities to seven countries. Six of these initiatives have been announced in the past 2 months.

Two things are happening with respect to EEP activity. First, the level of activity is picking up, and second, there is a greater balance among commodities. Our objective is to get the maximum amount of trade policy leverage from each EEP bonus award made. This will be particularly important if Congress continues to reduce the program level.

In late 1988, the Office of Management and Budget requested that the U.S. Department of Agriculture undertake a study of the EEP to assess whether the program was meeting its objectives and operational criteria. The attribution of outlays to the program by the CBO was one of the factors prompting these questions, due in large part to the budget neutrality criterion of the program. The questions from OMB were, as I indicated, appropriate.

We have completed the study, and it is attached to my testimony. It was conducted by a USDA task force representing several agencies and has a solid theoretical base and empirical evidence to support its conclusions. Since you have the study, let me highlight the results here.

The study concludes that the principal objectives of the EEP have largely been met. The program has challenged unfair trade practices, it has expanded U.S. agricultural exports, and it has spurred trade negotiations.

The study also concludes that the EEP operational criteria generally have been met. The program has been targeted; additionality of between 10 and 30 percent, depending on market conditions and other factors, has been achieved for U.S. wheat exports; budget neutrality, although difficult to measure, has been demonstrated for wheat exports under the program by econometric analysis; and there have been net economic benefits for the economy as a result of the program.

A third finding of the study was that program objectives and criteria need to be clarified and more closely related so that they do not work at cross purposes.

Now, going beyond this study, we have also analyzed what we feel at the USDA are the appropriate objectives and method of operation of the program as we go forward. This analysis is now before the interagency group for review, and I would like to share with you some of the highlights of our proposal.

But first, let me comment on the input used in our analysis. We obviously were conscious of and considered the questions and concerns we heard from this subcommittee. We have spent a lot of time talking with commodity groups and with members of industry. These groups have had, and still have, a number of concerns about the program and its operation. And, while we may not have addressed them all, their input was valuable.

Our discussions with our competitors and customers about the program also influenced our thinking, particularly with respect to the importance of the EEP's trade policy objectives. Finally, we drew on the input from a broad group of experts in USDA and OMB. The proposals sent forth and highlighted below are USDA recommendations, and we welcome your questions and comments.

The USDA proposal includes the following components:

Focus the program primarily on trade policy and trade negotiation objectives. Once these trade policy objectives are achieved, the program should be phased out;

Continue targeting the program to countries where there is unfair subsidized competition, and where the EEP is needed to bridge the difference between subsidized prices offered by competing exports and U.S. prices;

Focus on commodities and countries where the United States can compete if trade subsidies are eliminated;

Subsidy allocations will be commensurate with market price differentials, focused on trade benefits to help ensure that the program has minimal effects on budget outlays;

Improve USDA procedures for the review, analysis and selection of individual EEP proposals; and

More responsive interagency approval process.

One final operating guideline that we have is to minimize the effects of the program on normal commercial marketing channels and practices. The intent of the program is to ensure the export competitiveness of U.S. agricultural commodities, not to replace or disrupt normal commercial marketing channels. While some

market disruption is probably inevitable, efforts will be taken to ensure that it is minimal.

I would again point out that these proposals were sent to the interagency group only last week, and we have not yet received approval. However, USDA believes these recommended changes will result in a more effective and efficient EEP.

During my last testimony, Mr. Chairman, before the subcommittee, the primary concerns were the future direction and operation of the program and who was responsible for managing it.

I want to make four points in this regard. First, we believe that EEP is an important trade policy tool. Second, we feel we have proposed sound objectives and operating guidelines for the program. Third, USDA is responsible for managing the program. Fourth, we have received strong support from the interagency group in general and OMB in particular, regarding EEP initiatives.

In reference to a point I made earlier, I want to express my concern about the recent budget reconciliation action by the House Agriculture Committee to cap the EEP at \$500 million for 1990 to score budget savings. As you will recall, we had previously asked that no program ceiling be placed on EEP. Capping the EEP sends the wrong signal to our competitors and reduces our flexibility to deal with changing market conditions.

This, coupled with the fact that we do not know what actions our competitors will take in the marketplace, makes the cap very inappropriate. In addition, the administration has scored the program as budget-neutral and therefore, OMB has indicated that it will not score any savings if the limitation is enacted.

Finally, we at USDA are aware of the importance this subcommittee attaches to its oversight role for EEP. We welcome that. As responsible managers, we recognize the importance of and benefits from proper review and control procedures.

In this regard, I would point out the following: We have our own review and compliance group. The USDA Inspector General is in the process of completing a study of EEP. The General Accounting Office also has a study underway. We plan to use the results of all of these to improve the management of the program.

That concludes my testimony, Mr. Chairman. I will be happy to answer any questions.

[The prepared statement of Mr. Crowder appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you, Mr. Crowder. I appreciate your staying up here.

Mr. Mendelowitz, I would appreciate you coming, you, and if anyone is with you, I have asked the GAO to present their testimony now before we ask questions of USDA.

STATEMENT OF ALLAN I. MENDELOWITZ, DIRECTOR, TRADE, ENERGY, AND FINANCE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PHILLIP J. THOMAS, ASSISTANT DIRECTOR, AGRICULTURAL TRADE, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, AND JULIE GERKENS, PROJECT MANAGER, EXPORT ENHANCEMENT PROGRAM

Mr. MENDELOWITZ. Thank you, Mr. Chairman.

I would like to introduce the gentleman on my right, Mr. Phil Thomas, our Assistant Director for our work on agricultural trade. With your permission, I would like to read a few summary comments from my statement and submit the full statement for the record.

We are pleased to be here today to discuss with you the status of our ongoing work on the Export Enhancement Program, EEP. Our review is being conducted at the request of the chairman, House Committee on Agriculture; Congressman Conte, the ranking minority member of the House Committee on Appropriations; and Congressman Schumer.

Our current review updates and expands upon the issues addressed in our March 1987 report.

Since its inception, EEP has grown dramatically. As of July 21, 1989, there have been 103 initiatives, that is, announcements that specific countries were eligible to purchase specific commodities under EEP.

Twelve commodities in 65 countries have been targeted and 73 exporters have participated in the program through the first 6 months of fiscal year 1989. Four exporters—Cargill, Continental, Louis Dreyfus, and Artfer—received over \$100 million each in bonuses, with Cargill and Continental each receiving over \$400 million in bonuses.

Total EEP sales are valued at \$8.4 billion, of which wheat represents 82.3 percent. Sales to the Soviet Union and the People's Republic of China account for nearly 50 percent of total EEP wheat sales. Sales to Algeria, Egypt, Yemen, and Morocco, the first four countries targeted under EEP, represent another 25 percent of total wheat and 60 percent of total wheat flour sales.

In the last several years, U.S. agricultural exports have increased significantly. U.S. wheat exports increased from 25 million metric tons in the 1985 crop year to 43.5 million metric tons in the 1989 crop year.

The U.S. market share of world wheat and wheat flour exports increased from 29 percent to 42 percent during the same period. However, as discussed in our March 1987 report, an exact measure of how much of these increases were due to EEP is difficult to determine.

It is hard to isolate the EEP effect from that of other policy and economic variables which have contributed to increased agricultural exports, such as lower loan rates, extended export credit guarantee program, and the dollar.

With that said, however, EEP does appear to have been critical to make sales in certain markets—without it, the sales would not

have taken place—such as the wheat sales to the Soviet Union and China.

During periods of surplus supplies on the world market, these importing countries took advantage of competition among exporters to obtain the best possible price and terms. Without EEP to make U.S. exports competitively priced, it is highly unlikely that these sales would have taken place.

Officials in Algeria, Egypt, Jordan, and Iraq told us that EEP was essential to enable U.S. exporters to make sales, because these countries are "price buyers," that is, they buy at the best price available, regardless of the source. They also noted that the availability of U.S. export credit guarantees was essential to making many EEP sales.

We have reviewed several studies that have attempted to measure the EEP's overall additionality. All of these studies estimate that U.S. agricultural exports have increased due to EEP, but they differ on the magnitude. The additionality estimates range from 2 to 30 percent and are greatly influenced by the assumptions made and the time period covered.

When it was established, the EEP was viewed not only as a means for increasing U.S. exports, but also as a means of encouraging U.S. trading partners, especially the EC, to begin serious negotiations on liberalizing agricultural trade.

In our March 1987 testimony before the House Agriculture Subcommittee on Department Operations, Research, and Foreign Agriculture, we noted that the EEP had exerted financial pressure on the EC and had reduced its grain sales in the Mediterranean region.

We reported that the EEP, combined with the decline of the dollar and lower loan rates, had increased the financial cost of the EC's export restitution payments and had contributed to realizing agreement to include agricultural subsidies in the Uruguay Round of multilateral trade negotiations.

In our March 1987 report, we concluded that the ultimate impact of the EEP depends, among other things, on how serious and sustained a commitment it represents. A prior U.S. attempt to match foreign export subsidies had not been sustained and the subsidizing competitor regained the market.

The United States had countered competitor subsidies for wheat flour exports to Egypt in 1983 and had taken the market away from France. However, the United States did not renew the program in subsequent years and France regained its market share.

European and U.S. officials had contended that this demonstrated U.S. unwillingness to seriously challenge EC agricultural export subsidies. The U.S. approach had been criticized by U.S. agricultural interests as inconsistent and lacking in follow-up commitment. The gain in the United States share of the Egyptian wheat flour market proved to be temporary.

Had the United States terminated the EEP after 1 or 2 years, the program would have been viewed as yet another indication of the lack of U.S. will to retaliate against unfair trading practices. Hence, abandoning the program could have adversely affected progress in the agricultural trade negotiations.

We also believe that the EEP's continued existence as a trade policy pool is important. If market conditions change, it could again be used aggressively, potentially increasing the cost of the EC's restitution program.

More significantly, abandoning the EEP would now send the wrong signals to U.S. competitors, especially the EC, with whom we are negotiating on the liberalization of agricultural trade.

The EEP has significant symbolic value in this regard. In addition to the direct impact it previously had in increasing the costs of the EC's export restitution program and thereby encouraging the EC to negotiate, the EEP appears to have had an indirect impact as well.

To the extent that it has had an adverse impact on other competitors, including Argentina, Australia, and Canada, it has probably increased their resolve to push for a GATT agreement on agricultural trade.

In summary, EEP remains an important trade policy tool if for no other reason than unilaterally abandoning it would weaken the U.S. negotiating position with the EC. It could have greater importance in the future if market conditions change.

The EEP has contributed to increased U.S. agricultural exports, particularly wheat, in many countries, including the Soviet Union, China, and those in the Middle East. The magnitude of the overall additionality, however, is difficult if not impossible to determine because of the many factors influencing exports. In today's tighter wheat market, the program is appropriately being used more selectively.

In the course of our current review, we are looking at a number of operational issues which, when our work is complete, we will be happy to discuss with you, dealing with assurance that program requirements and regulations are being complied with on the part of the program participants.

This completes my summary statement, and we will be happy to try to answer any questions you might have.

[The prepared statement of Mr. Mendelowitz appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Mr. Mendelowitz, as of today, are you not prepared to discuss the operational parts of the program? You are still looking at that?

Mr. MENDELOWITZ. I think that is a pretty fair assessment. We don't have enough data at this time. We have observations from our earlier work, and we have summarized some of those in the full statement for the record.

Mr. GLICKMAN. Mr. Crowder, what is the status of the Inspector General's review? Is there an ongoing IG review of the program?

Mr. CROWDER. There is one that is about ready to be submitted for comment. I would not want to speak for the Inspector General, but they are close. My understanding is that they are close enough so that the process is that they will send a copy to us in the next week or so. I am putting that time frame on it, for our comment, and then for the final report.

So that is pretty far along.

Mr. GLICKMAN. And what is the duration of that review by the IG? Did that come in after the Secretary became Secretary? Did that program begin after he became Secretary?

Mr. CROWDER. I don't know when that began. I think it may have begun before, but I don't know the exact starting dates. I think it probably would have begun before this far along.

Mr. GLICKMAN. Let me first start out. Mr. Secretary, on July 7, you replied to my letter on Richco, in that you indicated that the FAS was investigating, as was the Inspector General. What is the status of the investigation of Richco Commodities being eligible to participate in EEP.

Mr. CROWDER. In terms of history, let me trace you through it a little bit like I did in an early conversation in response to you in writing, also. Following the question you asked at the last hearing on April 27, we asked our internal people in FAS to take a look at this.

We found we could not go far enough in terms of information ourselves to come to a conclusion in terms of whether or not there was a basis for suspension or disbarment.

Following that, we asked two things to take place on a simultaneous track. One, for the Office of General Counsel to request some information from Richco; and, two, for OIG to proceed along a path simultaneously.

We, the—I say we, the Office of General Counsel has received some information from Richco. It is incomplete. They have asked for Richco to submit the remaining data that are needed, and then once that is in, the Office of General Counsel will come to us with their conclusions.

I do not know exactly where the OIG stands now. They are operating on their own track. But both of these are proceeding. And then, once we get the information back, we will make decisions then.

Mr. GLICKMAN. Cooper Evans is back there. Why don't you come on up here, there is a seat up here.

Mr. EVANS. Thank you, Mr. Chairman. I will have to leave in a few minutes.

Mr. GLICKMAN. OK. You are welcome, though. Well, Mr. Crowder, then as of the current date, you have no real information for us about how a company like Richco could qualify in the first place?

I guess my concern is that all a company needs to do to qualify to participate in the program is to open an office in the United States?

Mr. CROWDER. No. That is not all a company needs. As you well know, Mr. Chairman, the procedure for suspension or disbarment is one that you don't proceed with lightly, because of the potential liabilities and so forth associated with that.

But historically, there have been four criteria that have been used to approve companies. First, is experience in buying and selling of the program commodity. A second is to have an office and an agent in the United States. The third one is to have performed satisfactorily under previous contract or agreements with the U.S. Government; and then the fourth is to provide the Commodity

Credit Corporation with evidence of performance prior to submitting the offer.

Mr. GLICKMAN. Did Richco Commodities comply with all four of these things?

Mr. CROWDER. Richco Commodities has complied, and since you asked the question at the last hearing, we have been looking into the issue, or the question as to whether or not there is reason for suspension or disbarment.

One comment I think we should make with respect to this, not only with respect to Richco, but it goes to other companies also, because this question was asked at the last meeting. You had indicated in your opening statement that the company had received these large subsidies.

In order that we make it clear whether it is Continental or Cargill or whoever it is, the subsidies of the magnitude we are talking about here in terms of the bonus awards, do not go to the companies.

The bonuses are awarded to make our products competitive in the marketplace.

Mr. GLICKMAN. But they don't participate out of the goodness of their heart to give money to charity. I assume they are participating to help move grain which benefits them and American farmers as well.

Mr. CROWDER. I agree with that 100 percent. But to suggest that the magnitude of their participation is the magnitude of the subsidy, whether it be Richco or someone else is, I believe, a mistake.

Mr. GLICKMAN. But you acknowledge that anyone that participates in this program is making a buck?

Mr. CROWDER. If they aren't, they shouldn't be participating in the program.

Mr. GLICKMAN. Yes. My concern is, one, the delay in getting a response; and two, how no one in the Department raised questions about Richco prior to when the issue was first involved publicly by accident. It makes me wonder if there are procedures in the operation of EEP that protect the integrity of the program and the Department.

Mr. CROWDER. Well, two things. I cannot comment on the issue of why the question of Richco was not raised prior to the time that you asked me about it, on April 27, because I was not here, and I do not want to comment on that.

With respect to how long it has taken, it has probably taken longer than I wanted it to have taken, too. But I can assure you we have been diligent in our efforts, and because of the seriousness to which you attach to it, and the seriousness which we attach to disbarment or suspension, I want to make sure that it is done right, rather than quick.

I would trade off quickness for rightness in this case.

Mr. GLICKMAN. I don't disagree with that. I think that, as I said in my opening statement, I am a supporter of this program, and while I fully recognize that Richco, if they got, let's say, \$65 million, participated in subsidies, they don't make \$65 million on the deal.

I understand that. But at the same time, you are here saying that Congress ought not to put a cap on the program, but you have

yet to tell us how the largest tax evader in the history of the United States of America, or one of them, was able to participate in the Export Enhancement Program.

So you see that is the problem we are put into right here. We want to make sure that this is not replicated in the future and make sure that the procedures are there to catch these things.

Mr. CROWDER. I think that is fair. Although I think that—I would make one point there. I think that since we are aware of where we are with respect to operational procedures, it is fair enough.

But I am not so sure that the question of operating procedures was, A, the driving force behind the \$500 million cap, or, B, is serious enough to tie our hands with respect to trade policy aspects to put the cap in.

Mr. GLICKMAN. But we have a lot of Members of Congress who would probably like to see his program cut even further, therefore, we have to know that you are on top of it, and these things will not happen in the future.

We will go around the room more than once, I suspect. I do want to ask one final question. The GAO has suggested that there may be no objective criteria used to set prices and bonus levels.

It is a matter of judgment. That is, what are the standards used to determine once an initiative has been extended to whatever country, it is to know whether the price and bonus level submitted by the exporters are legitimate.

And my question is, do you have any standards that are on paper for people to know what are appropriate price and bonus levels, or do you shoot from the hip on this?

Mr. CROWDER. No, I don't shoot from the hip, and I don't believe in shooting from the hip, and I did not know that that was a position of GAO.

Mr. GLICKMAN. That was my judgmental point at the end. I am sorry. I did not mean to imply that they said that. That was a statement they had made in an earlier report. Not this report.

Mr. MENDELWITZ. If I might add to the discussion at this point? Our criticism of the determination of minimum price and maximum bonus were made very early in the program, when there was still a lot of learning going on, on how to operate the program.

In the 4 years or so since the program was established, it has been expanded. It is larger, more countries are involved, more commodities are targeted. And, the procedures for establishing price and bonus information have been improved.

While we state in our statement today that the process of determining minimum price is, in fact, a process that requires a lot of judgment, it is also a process that is based on a rather highly developed and complex information system at USDA.

We did not mean to give the impression that we were being highly critical of the Department at this point in time.

Mr. GLICKMAN. Is there a regulatory framework by which the Department has given notice to the world about how price and bonus levels are set?

Mr. MENDELWITZ. The issue of setting price and bonus levels is something that is literally done on a daily basis for commodities like wheat and on a weekly basis for commodities traded less

widely. The process includes collection of market information from market players in Europe in order to identify on a real-time daily basis what the EC is offering in the way of export products and prices to give 17 markets. That information is confirmed through multiple sources. FAS' attachés provide input. The analytical branches of the Department of Agriculture are part of the process. I don't know if there is a handbook that says to do it by the numbers in a certain way, but the impression we have at this point is that there is a good data collection process in place.

Mr. GLICKMAN. But does the world know how they do it?

Mr. MENDELOWITZ. I don't know that the world knows other than the extent to which they are told that it is based upon our efforts to get as good current information as we can.

Mr. GLICKMAN. Mr. Crowder, is what Mr. Mendelowitz saying pretty accurate?

Mr. CROWDER. It is pretty accurate, yes.

Mr. GLICKMAN. OK, when we come back I would like to ask you additional questions on additional—but now I will turn to Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Crowder, in your statement, you were critical of Congress placing a cap on EEP, because you said it would send wrong signals to our negotiators in Geneva with the world agreements that are attempting to be taking place.

Didn't the short-term agreement with the GATT really also cap export enhancements from all countries?

Mr. CROWDER. The short-term agreement capped the subsidies based on those that existed in existing programs, not the specific level.

Mr. SMITH. So there was a cap of sorts, and there was an attempt in the GATT negotiations to at least stop the growth of export enhancement.

Mr. CROWDER. Beyond those authorized by existing programs.

Mr. SMITH. Well, the whole purpose was to stop the growth, of course, and that is one of the reasons we got the agreement. The point is, I guess, that if we ought to have \$1 billion and we have \$500 million, we haven't used that difference, how can that limit our negotiators?

Mr. CROWDER. Well, let me respond to that, two points. First, to extrapolate the \$500 million this year, that approximately will be expended this year, extrapolates the existing market conditions into next year, and it extrapolates the way the program was administered into the next year, and both of those could be wrong.

Second, with respect to the negotiating side, if I were on the other side, and given the GAO comments about the EEC's statements with respect to our Egyptian flour sales, I believe, back in 1982, I would look at that \$500 million and compare it to my \$10 million. If I were you, I would see how serious those people are.

Mr. SMITH. \$10 billion?

Mr. CROWDER. \$10 billion, I am sorry. To see how serious they are about competing in the markets, and there are a lot of ways they could test us on that, and they could spend us into the poor house quickly.

Whether they would do that or not is uncertain—but if this were a toothpaste campaign, and one company said, I will limit it to \$500 million, and I have 20 times that to spend, I know what would happen to my market share in the next 12 months.

Mr. SMITH. I am sure this committee will be carefully following this, and if that occurs, you will get assistance. Mr. Mendelowitz, during your study, did you come to any other conclusion but that we likely would not have achieved the sales to China and the U.S.S.R. without export enhancement?

Mr. MENDELOWITZ. Did we come to conclusions in addition to that?

Mr. SMITH. Did you come to any other conclusion about that statement?

Mr. MENDELOWITZ. I am sorry.

Mr. SMITH. If we did not have EEP, if we had no export enhancement, would we have been the recipients of the purchases from the Soviet Union and China?

Mr. MENDELOWITZ. Our judgment is that we would not have.

Mr. SMITH. So that is a huge part of the sales, using about \$2.5 billion?

Mr. MENDELOWITZ. If I remember the numbers correctly, China and the Soviet Union represented about 50 percent of the wheat sales under the program, and wheat represented about 82 percent of all sales under the program.

Mr. SMITH. Those sales then likely would have gone to Canada, Australia, South America, the known—the known growers of wheat?

Mr. MENDELOWITZ. Or the Common Market. For example, if you go back to the early years of the EEP program, we targeted markets in the Mediterranean region that were traditionally EC markets. We did not target the Soviet Union for political reasons, and while we did gain market share in the Mediterranean, we lost market share in the Soviet Union.

And that is one of the reasons why we concluded in our earlier report that while we had increased exports under EEP in certain markets, we had lost sales in other markets. EC wheat exports had been diverted to the Soviet Union and because we hadn't targeted the Soviet Union we lost sales.

Mr. SMITH. I guess the point remains if anyone questions the productivity of EEP, they need only read your report and your answer to my question. Thank you.

Mr. JOHNSON [acting chairman]. Mr. English.

Mr. ENGLISH. Mr. Crowder, how much grain do we have available at the present time over and above what we are required to hold for emergency purposes and CCC stocks?

Mr. CROWDER. I don't have the specific number on that. I can provide that number for you.

Mr. ENGLISH. Can you give me roughly a number?

Mr. CROWDER. Well, we will carry out this year about 600 million bushels of—do you know the answer? Of which about 100-and-some will be about three—I am not sure. Hang on 1 minute, I probably have the number somewhere in front of me here.

CCC stocks are about, in 1988-89 year, about 168 million bushels and 217 in the Farmer-Owned Reserve.

Mr. ENGLISH. How much then are we required to hold on hand for emergency purposes?

Mr. CROWDER. I am not sure. I think it is 145, 140-some-million bushels—92 million bushels are in the Food Security Reserve.

Mr. ENGLISH. So that would leave us roughly how much available for EEP?

Mr. CROWDER. Roughly 76 million bushels if you just made a net of that.

Mr. ENGLISH. So roughly 76 million bushels. Do you have an idea of what the breakdown of that is, wheat and corn?

Mr. CROWDER. That is just wheat.

Mr. ENGLISH. What about corn?

Mr. CROWDER. The corn, the corn inventory carried out this year in the Farmer-Owned Reserve is about 753 million bushels, about 363 in CCC.

Mr. ENGLISH. How much of that would be available for EEP?

Mr. CROWDER. All of the corn would be available for EEP.

Mr. ENGLISH. So, all of the corn that CCC has would be available for that purpose?

Mr. CROWDER. Yes.

Mr. ENGLISH. The question is, then, what did we use, say, in 1987? What did we use in wheat and in corn on EEP?

Mr. CROWDER. We have not used any corn.

Mr. ENGLISH. So it is all then wheat. What did you use in 1987 on wheat?

Mr. CROWDER. I don't remember the number in 1987.

Mr. ENGLISH. Greater than 50 million bushels?

Mr. CROWDER. Yes.

Mr. ENGLISH. How much greater, substantially greater?

What I am getting at is that you do not have near the amount of wheat in stock with CCC that you have had in the past; is that correct?

Mr. CROWDER. That is correct.

Mr. ENGLISH. So, whenever you basically run out of wheat, what do you do then, use corn?

Mr. CROWDER. You can—two things. A, we have not run out of wheat, and, B, you can use commodity certificates which can be drawn against corn or other items.

Mr. ENGLISH. Corn or anything else?

Mr. CROWDER. Yes.

Mr. ENGLISH. Does the Department have any problem with taking that approach? Using generic certificates?

Mr. CROWDER. No.

Mr. ENGLISH. So, you are telling us there is plenty of grain in CCC stock to use for EEP; is that correct?

Mr. CROWDER. For the next year, yes.

Mr. ENGLISH. And what would be the approximate value of what we have in stock, wheat and corn?

Mr. CROWDER. If you have 400 million bushels of corn at \$2 a bushel, you have \$800 million.

Mr. ENGLISH. So, there is no shortage then as far as CCC stocks to meet anything.

Mr. CROWDER. No, if you add wheat into it, you are over \$1 billion.

Mr. ENGLISH. There seems to be a strong reluctance on the part of the Department of Agriculture. We had testimony this spring. You were here. You told us then that—and I was trying to remember your exact words, something about the fact that the policy is in abeyance, I believe is the word, abeyance as far as the use of EEP.

It wasn't until a few days, maybe a couple of weeks later, whenever we got into the sale to the Soviet Union, that we found that the policy was no longer in abeyance. What changed during that 2-week period that suddenly we had grain, or the head of the administration was willing to use EEP for the sale of commodities to the Soviet Union, but not to other countries in which we were in competition against, subsidized countries—countries that were using subsidies in competition with our farmers.

What is the difference?

Mr. CROWDER. The difference, one thing, is in the recollection where you come from on that and where I come from on that. As you recall, on April 27, when I came up here, there had been a previous official from the administration up here that said that the EEP program was on hold as a result of some discussions with respect—or suspended, I believe the word would be, as a result of the study that had been asked for by OMB.

The line of questioning that took place when I was here, and the testimony that I made at that time made two points: A, EEP was not dead. It was a good program, and we would continue forward with it. They said, judge us on the basis of what we do.

The question with respect to abeyance was not with respect to whether grain was available or not or whether the Department was willing to use a grain or not. The question was asked of me at that time, if I recall correctly, is, has the EEP program been suspended or put—is it dead, so to speak? I said no, the program may have been in abeyance, but it has not been suspended.

It had nothing to do with the philosophy or willingness to use the CCC grain for export activity. At that time, you will recall, there was quite a discussion, I believe, between Congressman Nagle and myself about the status of A, the Soviet negotiations; and, B, the export enhancement initiative to the Soviet Union at that time.

So, nothing changed between the time I was here last and the time that I am here now.

Mr. ENGLISH. One final question, and then my time has expired. Has the EEP been used with regard to any countries since that Soviet sale?

Mr. CROWDER. Yes, sir. We have about six, I think, in the last month. There was—

Mr. ENGLISH. Is that before or after the notification of these hearings?

Mr. CROWDER. It was before the notification of these hearings.

Mr. ENGLISH. Thank you.

Mr. NAGLE. Mr. Chairman, I ask unanimous consent that the gentleman be given 2 additional minutes, and then yield to me.

Mr. ENGLISH. No objection.

Mr. NAGLE. Well, that is not exactly the way it happened, is it? I mean, the under group, the trade policy council, reviewed the sale to the Soviet Union, and in fact, voted in favor of it, and then it was sent to the Cabinet-level group for further review.

That is the sequence that took place in the 2 weeks, was it not?

Mr. CROWDER. That is true. It went there, yes.

Mr. NAGLE. Is it not the fact that the person who argued on behalf of the USDA for the sale to the Soviet Union with the Export Enhancement Program utilization was in fact subsequently not reappointed to the USDA?

Mr. CROWDER. With respect—have you got me on that one? Ask that question again?

Mr. NAGLE. Is it not the fact that the person who represented the USDA at the first level, the trade policy group, in fact was successful in convincing the group to approve the sale to the Soviet Union, and as a result, was not reappointed to his position in USDA?

Mr. CROWDER. That is not my understanding at all.

Mr. NAGLE. Isn't it a fact that when the matter went to the economic policy group, those proponents of the sale were excluded from the meeting? Those departments in favor of the sale were excluded from the meeting?

Mr. CROWDER. I did not attend the meetings, and I cannot tell you who attended or who did not.

Mr. NAGLE. Isn't it also a fact, after the initial turndown, that Senator Dole was heavily lobbying the White House for approval of the sale?

Mr. CROWDER. I don't know—

Mr. NAGLE. You don't know that. You never saw copies of his letters.

Mr. CROWDER. No, I did not.

Mr. NAGLE. Never heard anything about it.

Mr. CROWDER. No, I have not seen any copy of a letter from Senator Dole. No.

Mr. NAGLE. I thank the gentleman for yielding.

Mr. JOHNSON. Mr. Grandy?

Mr. GRANDY. Thank you, Mr. Chairman.

Gentlemen, I am going to ask a question about the philosophy of the EEP program. I would cite a paragraph on page 17 of your testimony, Mr. Mendelowitz, in which you refer to Mr. Crowder and you say:

According to the new Under Secretary for International Affairs and Commodity Programs, EEP is being used to target markets where the EEP has a major presence.

And then you go on to talk to the proposal for a soybean sale not being approved, because they only have a 2-percent national sale.

So you can infer from that that the Export Enhancement Program is essentially a defensive mechanism. If our opponent, in this case the EC, which is why the program was set up in the first place, captures and holds a market share, we would implement the EC to recapture, is that not the philosophy, as opposed to a more proactive plan?

Mr. MENDELOWITZ. Was that question for me?

Mr. GRANDY. Yes.

Mr. MENDELOWITZ. Before I answer, I seem to have been somewhat remiss in not introducing Ms. Julie Gerkens, who is our Project Manager on the EEP assignment. I would like to do that for the record and then answer your question.

When the EEP was initially instituted, the program clearly operated the way you described. Markets were identified in which the EC had a large presence as a result of selling subsidized agricultural products, and the EEP was directed at those markets.

But, there is a problem for such a targeted program, to be successful, if it helps to export undifferentiated commodities; if you don't sell them in market A, you can in B.

If you target three or four countries where the EC has a large presence, you can take those markets away from the EC. However, the EC will start turning around looking for other markets and divert exports to those new markets. If they get in there, you respond and take the market away from them. What has happened is that the program expanded to a large number of countries and moved beyond simply targeting countries where the EC originally had a large presence.

The program shifted from only targeting countries where the EC had a large presence to those countries where the EC was attempting to break in, as evidenced by a sale being made, and then finally moved over all the way to targeting countries where the EC was contemplating moving in and shifting its exports.

I think that up until recently, the program has been quite broad in nature, despite the targeted aspect of the program. What is happening now is that with U.S. prices somewhat less out of line with world prices, with U.S. agricultural exports somewhat more price-competitive than they used to be, the program is being used again a little more selectively than it was—

Mr. GRANDY. Meaning that it is now being used more defensively.

Mr. MENDELOWITZ. More narrowly, yes.

Mr. GRANDY. We are not using the Export Enhancement Program under the present philosophy and that, of course, results, I assume, from higher prices to penetrate and hold our own market share. I guess that would lead to the following question:

At what percent does the European Community, let's say in soybean oil, for example, penetrate the Soviet market to the point where we would implement the Export Enhancement Program? I direct that to you, Mr. Crowder. I mean, do you have those percentages in mind, or is this something that the Trade Policy Review Group arbitrarily decides?

Mr. CROWDER. Well, there is—let me back up and give you a broader answer, and come right down to that. Basically, the approach that we follow when an initiative comes in that it is recommended to us that we implement, we will look at several things.

One is, is it a major current or historical market of the European Community? And there is no fixed percentage in mind when we look at it, at soybean oil, or be it wheat, because these percentages change from year to year, and I won't say month to month, but change from year to year and market to market.

But that is one of the criteria that we look at. Is it a major historical market or a market that the European Community has begun to target, and to erode market share from us?

So, the existing and historical patterns of market share is something that we do look at.

Mr. GRANDY. So, I can conclude that we, in a sense, wait for the Europeans to move first before we take any one opposite action?

Mr. CROWDER. Well, we have an initiative that comes in from a country, from the trade, from an association or whatever, and we look at it as to a country that is historically—been a significant market for the European Community. That is a major contributor to the decision in terms of whether or not we will recommend that the initiative go forward to the Trade Policy Review Group.

Mr. GRANDY. Thank you.

Mr. Chairman, we will have two rounds of questioning, will we not, is that the understanding?

Mr. JOHNSON. Yes.

Mr. Volkmer.

Mr. VOLKMER. Thank you very much.

When we talk about whose market is whose market, Mr. Crowder, how far back do we go?

Mr. CROWDER. We have, historically, we have looked back anywhere from 5 to 7 or 8 years, depending on the item and so forth.

Mr. VOLKMER. On the 5 to 7 to 8 years, I mean, isn't it true that, let's say 1975, the European Market was actually an importer of wheat?

Mr. CROWDER. Yes.

Mr. VOLKMER. In that timeframe, we had the rest of these markets, correct?

Mr. CROWDER. That is correct.

Mr. VOLKMER. It was only after they became more aggressive with different types and varieties of wheat and expanded their wheat in France and England that we had the problem with expanding growth, correct?

Mr. CROWDER. That coupled with the fact that our products became noncompetitive in the world.

Mr. VOLKMER. That occurred.

Mr. CROWDER. Yes, we gave up this year.

Mr. VOLKMER. In the meantime, you had Australian and Canadian producers who still had their markets?

Mr. CROWDER. That is correct.

Mr. VOLKMER. It is in that timeframe that I think we ought to look at it and see where we were and see what happened in those markets. By 1985, if I remember right, I was in Russia with the Agriculture Committee, and I don't know if you will look at it when you look at the overall thing, but the European Community was in Russia at that time very aggressively trying to take away our wheat market.

Isn't that right?

Mr. CROWDER. That is correct. They have been very aggressive since they became surplus producers.

Mr. VOLKMER. This is the reason we started EEP. We were losing markets, right?

Mr. CROWDER. That is correct.

Mr. VOLKMER. Because of the European Community, not because of the Canadians or Australians, correct?

Mr. CROWDER. That is correct.

Mr. VOLKMER. Are we now to say that because we have a low amount of wheat to be exported that we are going to let the EC go back into those markets?

Mr. CROWDER. No. I made a statement a couple of times at speeches in different places around the country. I firmly believe this: That the amount and level of EEP activity—and this question came to me in another way, given the low stocks of wheat, does that mean that EEP will go?

My answer has been several times over that our activity in the export market with respect to wheat will be a function of price differentials and not stocks. Obviously, you cannot export more than you have.

One of the things we will unfortunately have in the next couple of years is dry weather, a drought that has hurt the wheat crop in the northern plains last year and this year in the southern plains.

I think that we should continue to compete in these markets. I think it is a heck of a lot easier to give up market share as we did than win it back. That is the problem we have now, to try to win it back with limited supplies.

It is even more difficult if you have your hands tied with supplies and dollars to do that.

Mr. VOLKMER. So far this year, since the March-April early time frame, and I will not argue about what was happening, we knew we had a review, but nothing else. I think we all agree on that. There had been only one EEP wheat sale; correct?

Mr. CROWDER. Two. There was a 1.5 million ton sale to the Soviets and 1.5 million ton to Algeria.

Mr. VOLKMER. Both have been historical market for our wheat, right?

Mr. CROWDER. That is correct.

Mr. VOLKMER. Other historical markets are Egypt, they have been importing at least since 1978 or 1979-80; China has been; Brazil, right?

Mr. CROWDER. Correct.

Mr. VOLKMER. Mexico?

Mr. CROWDER. Correct.

Mr. VOLKMER. How are we going to protect those markets as well as the Russian and Algerian and Tunisian market?

Mr. CROWDER. Two things with respect to two of those markets, Congressman, since the last time we were here, there was also a flour EEP to Egypt. There were two wheat EEP's and a flour EEP to Egypt.

In February, there was a 2 million ton sale to China, and they have not taken all of that yet. So, in terms of both those markets—most of those markets that you are talking about, we have been active in, in fact very active in.

Mr. VOLKMER. As far as the wheat program, you are maintaining that the original purpose of the EEP is being followed to correct from EEC and others?

Mr. CROWDER. That is correct. The purpose of the EEP, as far as I am concerned, is to ensure the competitiveness of our commodities, agricultural commodities in the work market against the unfair subsidies of the EC.

Mr. VOLKMER. And you use it, if I may, you use it also for other products other than wheat, where there are subsidies by other countries?

Mr. CROWDER. We have. Recently, we have done that. There was an EEP of eggs to Hong Kong; there has been a soybean EEP to Tunisia, and two barley EEP's.

Mr. JOHNSON. Mr. Penny.

Mr. PENNY. To what degree is USDA actively trying to increase our market share of high-value products?

Mr. CROWDER. Two things with respect to that: The initiatives I just talked about, since the last meeting here, in terms of high-value products, about half the initiatives have been in high-value products; one in flour, one in soybean oil, and one in eggs.

In terms of having a specific market share objective in mind, we do not.

Mr. PENNY. To what degree do you use EEP and to what extent do you use TEA for the purpose of making our prices more competitive in the high value area?

Mr. CROWDER. The TEA program, of which last year had a budget of \$200 million, is basically a high-valued program.

Mr. PENNY. But you do have authority to use EEP for the same purpose, don't you?

Mr. CROWDER. We have used EEP, as I indicated, in three of the last seven awards that have been made, in the value-added, if you will.

Mr. PENNY. How much in total have we used TEA in the last year?

Mr. CROWDER. In the last year?

Mr. PENNY. What was the allocation level?

Mr. CROWDER. \$200 million.

Mr. PENNY. How much of the EEP has been allocated for high-value purposes?

Mr. CROWDER. I don't know.

Mr. PENNY. Can you put a value on it?

Mr. CROWDER. No, I couldn't.

Mr. PENNY. But it has been half of the last?

Mr. CROWDER. Not in value, in terms of the number of initiatives. Since I was here last, about half of the number, not necessarily the value, but the awards, it has been three out of seven.

Mr. PENNY. Would you say that it is an important area that holds promise for the future as we look at the total amount of trade volume? Is this high-value area an area that we could do much better, and do you intend to make it a higher priority in the months ahead?

Mr. CROWDER. Two things with respect to that: First, having come, as you know, from a value-added company, if you will, I had always thought it is one that we held out hope for. We never did as well as I would have liked, but we tried, anyway.

Second, the opportunity, in terms of how we use our funds as we go through the next year, is going to be a function of market conditions.

I think that to sit here and say that 40 percent of the funds ought to go to one place and 40 percent ought to go to another, I

think that is a mistake. I think if we have opportunities like we have had recently to use them, we should and we will.

Mr. PENNY. So, you are not prepared to say that we need to make any changes in the EEP program?

Mr. CROWDER. No. I think we have to, A, watch what the competition does and, B, respond to that with the funds that we have.

Mr. PENNY. I see that the 1987 figures had European Community high-value exports at \$16.5 billion. U.S. high-value were only \$6 billion. The implication is that we could do much more in that regard. I know that we have had TEA for precisely that purpose, but I am very interested in seeing the Department focus a bit more on this direction in the future, because clearly, the signs of subsidies that have given the Europeans the advantage in bulk commodities are also giving them a competitive advantage in high-value.

So, I am pleased to see that in recent months, you have begun to move in that direction. We hope to see that continue. But if there is authority that is necessary from this committee as we approach drafting the 1990 farm bill, we would be interested in any help you can give us in that direction.

Mr. CROWDER. I appreciate that very much. As you look at the EC's exports in terms of value-added, and then look at their export subsidies of \$10 to \$12 billion and the \$200 million in TEA, you can also see the difference in resources they have to spend against that versus what we have to spend right now, too.

We will be glad to work with you on that.

Mr. JOHNSON. Mr. Nagle.

Mr. NAGLE. Have we had any opportunities to sell significant quantities of value-added products to the Soviet Union recently?

Mr. CROWDER. The Soviet Union recently purchased in the open market—the trade estimates—roughly somewhere between 30,000 and 40,000 tons of oil.

Mr. NAGLE. Did the Soviet Union approach us about making a purchase of up to 200,000 tons of vegetable oil with the EEP subsidy to bring it to the world market price?

Mr. CROWDER. There were reports that I read in the press that said that the Soviets were interested in 200,000 tons of oil. None of the people or sources that I have talked to ever confirmed those numbers.

Mr. NAGLE. Did the Soviets recently offer to purchase 200,000 tons of vegetable oil a year for the next 3 years with an export enhancement program additive to it?

Mr. CROWDER. Not to me they did not.

Mr. NAGLE. Did the White House in June 1989 turn down a proposal to send with any EEP vegetable oil to the Soviet Union?

Mr. CROWDER. Did the White House propose?

Mr. NAGLE. Did the White House recently pass on the question of whether or not vegetable oil should be sold to the Soviet Union?

Mr. CROWDER. I never put it to them.

Mr. NAGLE. You turned it down for yourself?

Mr. CROWDER. It was never asked of me.

Mr. NAGLE. I am confused, then. Mr. Mendelowitz, can you explain your testimony on page 17?

Mr. MENDELOWITZ. It is the second full paragraph.

Our understanding was that there was a proposal to sell soybean oil to the Soviet Union under EEP and that because of the small European share of the market the proposal did not go forward.

Mr. NAGLE. To read your testimony it says:

For example, in June 1989 a proposal went forward for EEP soybean sales to the Soviet Union. This was not approved partly because the EC only has a 2 percent share of soybean oil in the Soviet Union and the EEP sale would not hurt the EC.

Is that correct? Can you tell me the history of those negotiations?

Mr. MENDELOWITZ. We have to go back and check all our paperwork. Our understanding, if everyone remembers correctly, it is a proposal that went to FAS and evidently did not go forward from there.

Mr. CROWDER. Let me comment on that.

Mr. NAGLE. Let me state, first, the Soviet Union was offered by the United States 200,000 tons of vegetable oil for the next 3 years following an offer before. The administration has turned down both requests even though the Soviet Union requested to purchase at the world market price.

If you want to deny that, go ahead.

Mr. CROWDER. What I don't know is what they have communicated to you. It seems like each time we get into an exchange, somebody gets excited, and I don't know if that is necessary. But let me go back a bit to the 200,000.

I spent quite a bit of time talking to the Soviets. The 200,000-ton number was floated at one time in FAS.

In my discussions with the Soviets, A, they never suggested to me a 200,000 deal for 3 years, and they also indicated that the 200,000 number for this year was larger than their interest was at the time they talked to me.

If you have heard specific offers from someone else about a 200,000-ton for 3 years, you have information that I don't have, and we would, at any time that you get it, be more than glad to sit down and talk to you about it when you get it, so we can follow up on it.

It is not in my interest or their interest to sit on such a request.

Mr. NAGLE. Can you tell us the volume of the sale turned down in June 1989 to the Soviet Union?

Mr. MENDELOWITZ. We don't have available the volume. We could supply that for the record. As I said, our understanding was that the proposal did not leave FAS. Our understanding was that it was not sent forward to Mr. Crowder.

Mr. NAGLE. I yield to Mr. Volkmer.

Mr. VOLKMER. I would like to know the basis for your statement on page 17. Is that a proposal, you say a proposal did not leave FAS.

Mr. MENDELOWITZ. I stand corrected. Mr. Crowder said it did leave FAS. It did get to you?

Mr. CROWDER. Yes.

Mr. VOLKMER. Then you got it?

Mr. CROWDER. It went to me.

Mr. VOLKMER. I thought you told the gentleman from Iowa earlier that you didn't know anything about such a sale?

Mr. CROWDER. That is the reason I distinguished between comments in terms of the press reports, and in terms of my discussions with the representatives from the Soviet Union at the time. But I did discuss with the FAS people a 200,000-ton sale of oil to the Soviet Union.

Mr. JOHNSON. The Chair yields an additional 2 minutes to the gentleman from Iowa, who holds the time.

Mr. VOLKMER. Was there an initiative from the Russians or a broker to FAS, or was this an interim document of FAS', based on what they thought they could do?

Mr. MENDELOWITZ. As you know, proposals for EEP initiatives can come from sources within the Department of Agriculture, as well as from customers. Unfortunately, the document that we saw that represented the proposal prepared within FAS did not state where the proposal came from.

So, at this point, we don't know who initiated it, but we can find out.

Mr. VOLKMER. I think it is very important for us to find out where that was initiated, whether it came from outside or within.

Mr. MENDELOWITZ. Mr. Crowder commented that he would be preparing the answers for you.

Mr. CROWDER. The Soviet sale got turned down before it came forward, got turned down at my desk.

Mr. VOLKMER. Why was it turned down?

Mr. CROWDER. Two or three or four reasons, as we indicated at the time. We said with respect to the criteria. As you look at a couple of things at the time the proposal came forward, and I reviewed the proposal, and I turned it down. I turned it down. I turned it down for a couple of reasons: A, it was not targeted. If you look at the market, it was not there.

B, I thought that the commercial sales would be made, and with limited funds with respect to EEP, I said, if we are going to make commercial sales, there is no use making subsidized sales.

The bottom line was we made commercial sales, and I think that the decision was appropriate. Not only with hindsight, but if I had to do it again, I would make the same conclusion.

Mr. VOLKMER. So, Russia really did want 200,000 tons of vegetable oil?

Mr. CROWDER. At the time, when the 200,000-ton proposal came up, I talked to the Soviet people and asked if that was really the amount that they had in mind, and they said that, people I talked to said that was a larger quantity than they thought they were willing to purchase.

This was a Soviet person. Exactly how much they wanted, how much they would have bought, you don't always sell everything that you approve. The Soviets' million-and-a-half-tons of wheat that they requested and received in May, after much discussion, A, at this meeting and, B, outside of this meeting, they have not purchased all of that as of this date.

So, what one wants in the marketplace and what one requests may not be exactly the same thing.

Mr. VOLKMER. My question now is, and I don't know who is ever going to find out for me, is how much vegetable oil the Russians

have or will purchase within the next year or two, and who they will be purchasing it from?

Mr. NAGLE. If the gentleman would yield back, could I ask if it is not true that the Soviet Union within the last 2 or 3 weeks purchased 200,000 tons of vegetable oil from a South American supplier?

Mr. CROWDER. I don't know.

Mr. VOLKMER. Are we selling butter to the Soviets?

Mr. CROWDER. We are in the process of negotiating that sale we authorized earlier.

Mr. PENNY. We are supposed to meet later this week to discuss that very issue. Is there a conflict that has come up, or are you finalizing the sale? I think we were supposed to meet on Wednesday.

Mr. CROWDER. I understand that there has been a conflict, and you are trying to reschedule that. We will try to accommodate the schedule any way we can.

Mr. PENNY. If the conflict is because you are finalizing the sale, that is all right.

Mr. CROWDER. No, the conflict was on your side, not ours.

Mr. PENNY. I didn't know that.

Mr. JOHNSON. Mr. Jontz.

Mr. JONTZ. You indicated in your statement that the study does not estimate fully the economic impact of EEP on domestic producers. Does it estimate it partially, the economic impact of EEP on domestic producers?

Mr. CROWDER. No. There is no quantitative—you have to make an inference from that. That was not one of the objectives of the study to estimate the impact on producers.

Mr. JONTZ. So it does not estimate at all the economic impact of EEP on net farm income?

Mr. CROWDER. No.

Mr. JONTZ. Are you undertaking such a study?

Mr. CROWDER. No. This study, as you will recall, was focused on just a couple of issues, budget neutrality, and if the program criteria had been met or not.

Mr. JONTZ. Would you undertake such a study?

Mr. CROWDER. If such a study would be undertaken, it would be more appropriately done in ERS rather than my area. I am sure we could do it.

Mr. JONTZ. Are you aware of whether they have plans to undertake such a study?

Mr. CROWDER. I cannot speak to that, but I can find out and get back to you on it.

Mr. JONTZ. As you know, the Congress has to make some decision on the farm bill and the appropriations process as to how funds would be spent. I think it would be helpful to everyone if we had information on how EEP has affected the net farm income, so that we could properly evaluate the merits of EEP in that regard with competing alternatives for the same funds.

If there is anything you can do to promote that, I think it would be helpful in perhaps defending the program.

Mr. CROWDER. That relates to a question you asked the other day at the hearings, about the income effect. I will talk to the ERS

people as part of what they are doing if they can do this. That is no problem.

Mr. JONTZ. Mr. Mendelowitz, does your study touch the subject of the impact of EEP on net farm income?

Mr. MENDELOWITZ. We have not quantified the impact on farm income. I would like to provide an answer to your question that takes a longer perspective.

EEP is really important as a trade policy tool to try to bolster U.S. efforts to remove unfair trading practices in agriculture. We produce a lot of commodities which are competitive on world markets and would be competitive without unfair competition from the Common Market and other subsidizing exporters.

To the extent that EEP in effect protects the U.S. market share overseas in the face of unfair competition, it basically protects the long-run position of the U.S. farmer in world markets.

Large shares of wheat production go into the export market. Farm income is very much dependent on the export market. I think rather than looking narrowly at the extent to which EEP results in income transfers to the farm sector, I think it is important to look at how it helps to promote competitive U.S. products in world markets.

A program like this is important to the long-run health of the agricultural sector.

Mr. JONTZ. I appreciate your comments in response to Mr. Penny's question about the value added. I would be correct in concluding that your study does not address the issue of impact on domestic jobs, et cetera, correct?

Mr. CROWDER. That is correct.

Mr. JONTZ. Mr. Mendelowitz, could you evaluate the impact EEP has had or could have in creating new jobs? The Economic Research Service estimated if we could raise our global market share 15 percent, we would generate an additional 1 million jobs and increase GNP by \$50 billion.

I don't know whether that is something that you have looked at, but I would like you to.

Mr. MENDELOWITZ. We didn't look at that issue in the course of this particular review, but we have a collateral study on the promotion of high value-added products. We are hopeful that study will shed some light on what would be an appropriate U.S. policy response.

Mr. JONTZ. Thank you both.

Mr. JOHNSON. Ms. Long.

Ms. LONG. I have no questions.

Mr. SMITH. Mr. Mendelowitz, you use the example of Australia and indicate that because of the increased supply of wheat as a result of EEP out of our stocks, that the Australian market fell from \$115 to \$95, and that was in effect forcing them out of wheat into sheep production or something else.

So, if that is an example, it is another benefit, isn't it, to the whole EEP program if we are in an oversupply of wheat in the world, and a very small amount of money used to increase the world's supply of wheat, then people are going to get out of the business because the market is suddenly involved?

Does it apply just to Australia or does it apply worldwide.

Mr. MENDELOWITZ. Australia's wheat production has fallen, and they have shifted capacity into wool. Canada has had a fall-off in production, but that was primarily a result of climatic conditions.

I think that your example is a good one, although I must say that from an efficiency perspective and global well-being and welfare, I would rather see a cutback in subsidized production than nonsubsidized.

Mr. SMITH. I would agree, but it seems to me that before the 1985 farm bill, our whole purpose was to reduce stocks.

Mr. MENDELOWITZ. That is right.

Mr. SMITH. And an oversupply of the market. The world prices were following our target and loan prices directly. Suddenly, we have a much different picture here.

Mr. MENDELOWITZ. Prior to the 1985 farm bill, we created a price umbrella for the rest of the world. We, in effect, provided a no-lose price situation for foreign competitors. The reductions have contributed to a more realistic situation concerning what and how much should be planted. The adjustment that is taking place in Australia is appropriate.

They saw better opportunities elsewhere.

Mr. SMITH. Mr. Crowder, if without EEP we would not have sold some \$4 billion worth of commodities, primarily wheat, which is indicated by the GAO study, we sold 8.4, and roughly half went to China and the Soviet Union, and without EEP, we would not have sold it, we would have had the \$4 billion in inventory in the CCC, which would have been marked as a debit, I understand, and there, this committee, rather than trying to find \$600 million to meet Gramm-Rudman, we would have had to find \$4.6 billion coming out of the agricultural program, is that correct?

I assume the CCC stocks are a debit.

Mr. STEELE. The storage increases it.

Mr. SMITH. Let's assume we had 4 billion dollars' worth of commodities. How much would be a debit to the budget?

Mr. STEELE. Several hundred million dollars, it is not insignificant.

Mr. SMITH. It is a tremendous benefit to the budget as well to move those stocks. I would like to know the number, because I think it is important to point out that this whole EEP program has significant kinds of peripheral value than just the direct subsidy.

Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Volkmer.

Mr. VOLKMER. Just a couple of questions.

Mr. Crowder, let's say that India in the past—years ago—was an importer, and because of some of the economic conditions, because of their growth, they were self-sustaining, although in my opinion they are not, let's assume that though economic conditions improve in the country of India, and they decided they were going to start to import greater amounts of wheat, would we go in with EEP if the EC went into what I consider a new market, would we do that?

Mr. CROWDER. Yes, we would.

Mr. VOLKMER. What if only Canada went in?

Mr. CROWDER. If Canada went in with nonsubsidized prices, we would not offer subsidies against nonsubsidized prices. We would be competitive with Canada.

Mr. VOLKMER. Their exports are controlled by the Canadian Board. How would you determine whether or not there was a subsidy or not? The board can just offer a low price.

Mr. CROWDER. They could, but there are a couple of ways you could determine that. This is the primary reason; from the prices they are selling their wheat to other spots in the world, you can tell whether they have a different price going to India compared to other places.

Mr. VOLKMER. If they were undercutting world prices, you would use EEP?

Mr. CROWDER. We would use EEP in any place where there are subsidized exports, unfairly subsidized prices competing against us in the marketplace.

Mr. VOLKMER. Can you tell me or get me the information if you don't have it available to you, how much wheat stocks intervention there are in the EC at the present time?

Mr. CROWDER. I don't have that number, but I will get it to you.

Mr. VOLKMER. I would like to have that number. That is basically what we are saying we have to compete against, is it not?

Mr. CROWDER. We have to compete against their wheat stocks and any other product, their production coming on this year, yes.

Mr. VOLKMER. I would appreciate that.

Mr. JOHNSON. Mr. Grandy.

Mr. GRANDY. Does the Department of Agriculture have a position on cargo preference?

Mr. CROWDER. I don't know whether the Department does. With respect to EEP, I do. My position with respect to cargo preference on EEP is that we should not have it on EEP because of the additional cost associated with the program.

Mr. GRANDY. So, in other words, it would drive up the price of the deal and drive away possible customers.

Mr. CROWDER. It would reduce the amount of funds available and increase the bonus awards that we would have to make to compete in the market.

Mr. GRANDY. But that is not an official Department position?

Mr. CROWDER. I don't know that the Department has taken a position on that.

Mr. GRANDY. Could you find out for this committee?

Mr. CROWDER. I sure will.

Mr. GRANDY. Let me return to this somewhat arcane matter, this alleged soybean sale. I want to recreate this. I think I was asking the question from a philosophical point of view, and my colleague was asking it from a political point of view.

I would like to draw a conclusion.

Mr. NAGLE. Would the gentleman yield. I thank the gentleman.

I regard my questions as agricultural policy, not political. I did not regard my questions as arcane.

Mr. GRANDY. If the gentleman would allow me to reclaim my time, it seems to me arcane when we are trying to ascertain whether or not that deal did not go down, because your trade policy group decided not to subsidize the deal, and then they went to different customers.

That is the question I asked earlier about the philosophy of the EEP. My colleague then asked a question about the individuals,

and were people fired, and if so, was it because of that decision? I have no problem with either side of that argument.

I want to know if we are going to have an Export Enhancement Program? Is it going to wait until market share shifts to one of our major competitors or minor competitors before we fight to get it back? That is my only concern. I have no problem how these questions are asked.

It is my problem as to how they are answered. Let me pursue this: you have said you need a \$1 billion level for the Export Enhancement Program and take issue with this committee for using only \$500 million; is that correct?

Mr. CROWDER. We said that the last time, and I would like to have the same position at this time, to have it uncapped.

Mr. GRANDY. Uncapped, unlimited.

We on the committee decided to cap it at \$500 million, which is less than what we spent last year, if I am not mistaken. My colleague and I are pointing out, if you are not going to use the program, why do you need it to be uncapped?

If it is possible to make a sale of x amount of soybeans to the Soviet Union, because you decided to buy it commercially, what good is the program? We could have supposedly used the EEP to go back in and say, well, we have a better offer. That is my concern.

You asked us to make one decision in terms of not putting a cap on the program. Then, it seems to me that you are not willing to use it if we don't put a cap on the program.

Am I mistaken in my assessment of this?

Mr. CROWDER. There are about three points I want to make in response to that. First, with respect to where you are with respect to philosophy and in terms of market share, I agree. I think I said that earlier. It is a heck of a lot easier to give it up than it is to get it.

I think we ought to do whatever we can to get it. Second, with respect to the amount of money that was spent this year, two things: A, there was a cap this year; B, with respect to the amount of money that you have to spend, the market conditions will dictate that. Third, if there is a viable basis for expecting that you will make a commercial sale into a market that historically has not been a primary market of your competitor, I think the appropriate judgment at that stage of the game is not to recommend that the EEP would be made.

The fourth point that was embodied with your question in terms of the Soviet soybean sale, where was TPRG, it was never there, because it never got past my desk. OMB, Treasury and Commerce, and the others involved, did not turn down the Soviet oil sale, it was done at my desk.

Mr. GRANDY. If you decided at your desk to not OK the sale, because you thought they could be made commercially without any Government subsidy, and then the Soviets responded to another customer, another potential supplier, in this case South America, don't you then have the authority to come back in and say, let's talk again?

Mr. CROWDER. We do, and we will continue to on a regular basis. The answer is we do.

Mr. GRANDY. But in this case, you did not?

Mr. CROWDER. In this case, we have not.

Mr. GRANDY. Thank you, Mr. Chairman.

Mr. GLICKMAN. I want to apologize, I had a bill on the floor. We are now in the second round. Mr. Nagle.

Mr. NAGLE. Can you confirm or deny for me, first, there have been overtures from the Soviet Union about the sale of soybean oil, have there not?

Mr. CROWDER. There have.

Mr. NAGLE. Those are in the range of 200,000 tons a year for the next 3 years, are they not?

Mr. CROWDER. As I indicated in a response to you earlier, the Soviets have made no overtures to me for sales of 200,000 tons of soybean oil.

Mr. NAGLE. I am not talking about you; I am talking about the Government, the administration.

Mr. CROWDER. If they have, I am not aware of them.

Mr. MENDELOWITZ. You asked what the volume was in the proposal that was rejected. Our understanding was that it was 150,000 tons.

Mr. NAGLE. How many years?

Mr. MENDELOWITZ. I think that was this year's proposal.

Mr. THOMAS. It was rejected on June 6, 1989.

Mr. NAGLE. Can I see that document.

Mr. CROWDER. It is a list of rejected proposals.

Mr. GLICKMAN. Does the Department make public the rejections as well as the approvals?

Mr. CROWDER. No. We have not historically made the rejections public for a couple of reasons. I don't think that we should. It could reflect on the country involved. It could reflect competitive data and a lot of things that you do not want to reveal.

The reason that we made public the rejection of the Soviet sale was that it had been discussed on the front page of the Washington Post and a lot of other places, and we had no choice but to do that.

I think it would be inappropriate to make available a list of that.

Mr. GLICKMAN. Go ahead.

Mr. NAGLE. Does the name Tom Kay ring a bell? Who is he?

Mr. CROWDER. Administrator of Foreign Agricultural Service until earlier this year before being replaced by Bud Anderson.

Mr. NAGLE. He was not reappointed?

Mr. CROWDER. He was not.

Mr. NAGLE. Did he appear in front of DRG to argue for the subsidized wheat sale to the Soviets earlier this year?

Mr. CROWDER. I do not know. I was not on board when or if he did do that. I do not know whether he did or not.

Mr. NAGLE. You would not know whether he was requested not to go to the following Economic Policy Committee when that same matter was reviewed?

Mr. CROWDER. I would not know that.

Mr. NAGLE. You would not know if it was because of the effectiveness on arguing for the Soviet sale of wheat that he was not in fact appointed?

Mr. CROWDER. No, that was not the case, Congressman.

Mr. NAGLE. You would not know why he was not asked to appear since he was the most familiar with the subject?

Mr. CROWDER. I don't know.

Mr. NAGLE. Isn't it fair to say there is a divided house in the administration as to whether we should be engaged in subsidized sales to the Soviet Union?

Mr. CROWDER. I don't think there is.

Mr. NAGLE. Within the administration?

Mr. CROWDER. Not that I am aware of.

Mr. NAGLE. Isn't it a fact that the EPC was badly divided on that question and that is why they went to the President?

Mr. CROWDER. If it went to the President, the EPC must have been divided. But whether it was badly divided, I cannot respond to.

Mr. NAGLE. I think the failure to respond to Soviet overtures to 75,000 tons of butter, the Soviet offers to purchase vegetable oil, despite the fact this administration is doing what it promised not to do, using agricultural products as a tool of foreign policy. I think that is regrettable.

If they have the money or the rubles, I think we ought to sell to them. I find it baffling if we would pass up on a sale of 150 tons of vegetable oil and pass it along to the South Americans.

We have 3 billion tons on storage in this country. I think it was a regrettable decision by the administration.

Mr. CROWDER. Let me make a few comments on that. You mentioned three items: butter, oil and wheat. In early May we approved a 1½ ton EEP to the Soviet Union, of which they have about 800,000 remaining that they have not taken. So the administration, and USDA in particular, has not refused to offer EEP to the Soviet Union on wheat.

With respect to the butter, the administration has not refused to make a sale of butter to the Soviet Union. In fact, discussions have been and are ongoing right now.

With respect to the oil of 150,000 tons, that is a number greater than the Soviets addressed to me. Even if it were 150,000 tons, we do not know that it is foregone for two reasons: 35,000 tons have been sold; and second, we do not know how many would have been sold under EEP, and whether they will buy any more commercially or not.

So I think a judgment with respect to either of those is unfair at this time.

Mr. NAGLE. Isn't the fact that the Soviet delegation that was going to meet you in Geneva was upset? Didn't they meet you on a Monday?

Mr. CROWDER. I don't believe it was Monday. It was Vienna, not Geneva.

Mr. NAGLE. Isn't it a fact that the Soviets were complaining to the White House 2 days preceding their meeting that in fact they didn't know who was coming on behalf of the United States, the status of the delegation or the names of the delegation?

Mr. CROWDER. I heard that same story but I can tell you that that was not true. The Soviets did, because we had sent wires ourselves telling them that.

Mr. NAGLE. When were the wires sent?

Mr. CROWDER. Congressman, I don't remember the day.

Mr. NAGLE. Two days before the meeting took place?

Mr. CROWDER. It was sent prior to that.

Mr. NAGLE. Well, my information is different.

Mr. GLICKMAN. Thank you.

Mr. Crowder.

Mr. CROWDER. I am sorry, I may have misspoken here earlier. I am sorry.

Mr. GLICKMAN. Why don't you clarify your remarks.

Mr. CROWDER. I am sorry. I have misspoken. I have been told that we have not sold 35,000 tons of oil to the Soviets. It was my error.

Mr. NAGLE. I didn't think you had.

Mr. CROWDER. I apologize. We had discussed it earlier and I misspoke, and I apologize.

Go back to the butter. We did have the material there to them before that.

Mr. GLICKMAN. Would you yield to me for a question?

Does the gentleman need any follow-up to this before I go on with my questions?

Mr. NAGLE. No. I might in the next round.

Mr. GLICKMAN. I apologize, Mr. Crowder, for being absent so long. I want to ask a couple of things. One is the issue of additionality.

We have two parts of this hearing. How are you running the program, whether there are limits, constraints, regulatory authority, the basic operational things. The other has to do with how much you are moving and whether you are aggressive enough or not in what you are moving. Those are the two parts of this hearing.

I want to talk about the additionality issue. How many exports have increased due to the program? Most of the studies use econometric analysis, and conclude that the program has been responsible for 10 additionality. That could apply in virtually every sale there is an additional 10 to 30 percent products sold.

I want to know from you, have you done an empirical analysis of the additionality question? Have you analyzed specific initiatives to figure out what sales have been made in addition to what would have otherwise been made?

Mr. CROWDER. I will answer that in two parts. A, we don't evaluate specific initiatives, individual initiatives. Ten to 30 percent is the second interpretation that you mentioned in terms of additional sales, not 10 to 30 percent of the sale.

Mr. GLICKMAN. So you are saying 10 to 30 percent of the base commodities?

Mr. CROWDER. Yes.

Mr. GLICKMAN. Have you analyzed this empirically?

Mr. CROWDER. The studies analyzed it in aggregate, not the individual initiatives.

Mr. GLICKMAN. Have you tried to determine whether there is any statistical data to have us believe there are additional sales going? If you do not have additionality, it becomes a different program.

Mr. MENDELOWITZ. It is 10 percent to 30 percent. The additionality in these studies varied from year to year depending on how significant EEP was in promoting exports. For example, the years 1986 and 1987, when EEP was critical in closing the price differ-

ence, estimates of additionality were closer to 30 percent. These estimates were buttressed by the fact that in the period when additionality was determined to be relatively larger, the price of wheat in the United States was judged to have gone up 1 or 2 percent because of the additional demand associated with the EEP.

Mr. GLICKMAN. I am still concerned about this. We have to justify sales of maybe 1 million or 2 million tons to specific countries. If additionality is one of the prime reasons why we are using this program, it looks to me like it will have to be analyzed on a country-by-country basis unless the sole basis is not additionality but just to get the sale done, period.

Mr. MENDELOWITZ. It is very hard to estimate additionality on a country-by-country basis. As I indicated, when Mr. Smith posed the question earlier, in the case of the Soviet Union and the PRC, which represent half of the wheat sales under the EEP, EEP was absolutely critical to those sales.

Without it, we don't believe, based on the answers we received to the questions we posed, that they would have purchased the wheat from the United States.

Mr. GLICKMAN. So, in that case, there would have been 100 percent additionality?

Mr. MENDELOWITZ. Yes. But a problem arises when you try to assess the overall additionality of the program. Even if 100 percent of the sales to the Soviet Union or 100 percent of the sales to PRC were clearly the result of EEP, that doesn't mean that the additionality of those sales on a net basis is 100 percent, because if the EC is pushed out of the Soviet or PRC market, they will look for markets elsewhere, and they may supplant U.S. markets elsewhere.

So, you have to net out all of this. It is a pretty difficult road to hoe.

Mr. CROWDER. Let me comment on this one. When the proposals are submitted, there is a judgment, not quantitative or empirical, if you will, in terms of whether or not the proposal will create additionality, because if you assume that it didn't you would want to do it.

As you indicated earlier, this issue with additionality is critical. You would say, you will make the sale anyway, so there is not much reason to do it.

Mr. GLICKMAN. Let me move on to the question of confidentiality. There has been some hesitancy—quickly, go ahead.

Mr. VOLKMER. On this question, I am a little disturbed, Mr. Mendelowitz, about your answer, and I know it will be very difficult to determine on a country-by-country basis, but can we turn around and say, what if the old—what if, if, if, if. If you don't have EEP?

Mr. MENDELOWITZ. Oh, yes, I think certainly you can do that. We are quite comfortable saying that if you didn't have EEP, you would not have made the sales in the recent years to the Soviet Union and the PRC.

Mr. VOLKMER. Possibly to Egypt and Algeria and a few other places.

Mr. MENDELOWITZ. Yes.

Mr. GLICKMAN. Let me move to confidentiality. It concerns the internal use of EEP offers rejected. We asked the Congressional Re-

search Service of the Library of Congress to review a random sample. Mr. Crowder, I need your attention on this. We asked the CRS to review a random sample of sales.

EEP refused to give us this information, saying it was confidential and market-sensitive. I believe this information is vital and should be released publicly. Even the minutes of the open market meetings which are highly sensitive are released publicly on a delayed basis.

They contend that they cannot release the information because the European Community will figure out how the program operates. This is what I have been told. So I would ask you this: While USDA will not release the information to Congress, a random sample of EEP sales, presumably everyone involved in the Trade Policy Review Group has access to it.

How many people are there who have access to this information, and how is it determined who has access and who does not have access, and what security controls are in place to make sure the information does not get out?

Mr. CROWDER. The material is sent to the Trade Policy Review Group as market-sensitive information, and they are asked to treat it as such. We do not have—at least I do not have specific control.

How they monitor and control it is the way they would treat normal, sensitive, market-sensitive information there. But each member of the TPRG for the proposals we have sent forward gets a copy of it.

Mr. GLICKMAN. See, what we asked CRS to do, we asked them to pick out five sales in the last year, random, and then show us how the sales went. What dates of sales, prices, bonuses, historically. And we were told the information is confidential.

If that is true, Mr. Crowder, I believe that there has been a shield or a cloak on this program that does not exist very many other places.

Mr. CROWDER. Two things with respect to that. Historical data with respect to transactions already made, in my opinion, would not be market-sensitive. What you would be doing in that case is giving your competitor exactly how you were pricing off of his market at a given time. It would probably provide him leverage that he would not normally have.

Mr. GLICKMAN. At that point does it become historical and what point does it become available for committee oversight?

Mr. CROWDER. A couple of things. If you continue to use the same data and pricing structure and sources of information to compare prices with him, the historical status would be current. If you change sources of information and change bases of comparing prices for calculating bonuses, then it does not become historical.

It would be no problem at all.

Mr. GLICKMAN. Look, I don't want a Stealth program here, we had a bomber in the black for all these years, you don't want a Stealth program. You could call the companies a few days after an EEP bonus was offered, and probably find out all the details from it.

You could probably call a foreign country after the deal was offered. I am curious why the Government seems so edgy about let-

ting the oversight committees of Congress or the Library of Congress, CRS, understand how the deals have occurred in the past.

Mr. CROWDER. I can tell you from my standpoint, Mr. Chairman, the way that I operate and make decisions, anybody is welcome to see anything we do as long as we and they agree to it. It would not affect, the ability to go forward with this thing.

I have no problem at all with the process with making a decision or with respect to sharing information that will not hurt us in the future.

Mr. GLICKMAN. What I would like to do is, I would like to request from the Department a random sample of the EEP sales made since the inception of the program—we will talk about the country that we want to pick with you, figure out why the country was targeted, the amount of initiative and why that amount, the price level and how it was arrived at, and the bonus level and why.

I don't see any reason, if we do the appropriate level of oversight, we shouldn't be able to look at that.

Mr. CROWDER. A couple of things in terms of that. When you talk about prices and flow, when you talk about price and bonus, they differ from day to day, and because they are not all done at one time, I mean, awards are made under these—over several periods.

The Chinese initiative that was approved in February, the appropriate initiative in March may not—the appropriate bonus and price in March—may not be the appropriate bonus and price in July of this year.

Mr. SMITH. Would the chairman yield? Thank you, Mr. Chairman.

I see no reason not to release—those sales have been made. But I do see a problem that you may have in seeing those offers that have been rejected. Now, on this paper I have in front of me, you know, I could ask you, why didn't you sell wheat to the Dominican Republic? Why didn't you sell wheat to Venezuela? Why didn't you sell tobacco to China, barley to Japan, and why didn't you sell cows—we have a lot of dairy cows, why didn't you sell cows to Venezuela?

I could argue with you judgmentally from now on. But there is a sensitive part here. There is a caption under USDA review prior to sending to the TPRG working group. That kind of information ought not to be public information.

It seems to me that these are deals that are in process. However, those deals that have been completed, this committee and anybody else, it is a public program here.

Mr. GLICKMAN. If the gentleman would yield? I don't think that is the point. It is not public to determine the prices and bonuses that are paid in connection with this program, and my concern is that is where the taxpayers of this country become obligated.

I want to try to get this point clarified. At what point does that become public?

Mr. CROWDER. Well, let me make two comments on this. First of all, with respect to the programs that are rejected, I made the point earlier. I agree with Congressman Smith that I have real problems with that.

I have even greater problems, and I have not seen what you have here—I have even greater problems, and would tell you that I

think the program would be totally ineffective if we were in the process, if a deal were in process, if we released such information. And quite honestly, I wouldn't want any part doing that.

If an initiative has been completed, and you want to go back and look historically at something—again, there could be issues there in terms of revealing how you evaluate it, and when an initiative is approved, your competitor would make it much more expensive for you to do it if he had that information.

I think you need to understand that, too. I don't have anything to hide at all.

Mr. GLICKMAN. Is it a problem with the Government being basically the seller of grain, that you can't operate the same way in the private sector? It has created a conflict.

I will ask one more question, and then I will move on for a third round. Last week, the USDA announced a 60,000-ton vegetable EEP to Tunisia. I understand that you have stated that one of the criterion in making the sale is to lessen the displacement of normal commercial sales. That is a criterion in an EEP sale and—but according to this, to sources that I have got, this sale will displace vegetable oil sales from the European Community, which would have been oil crushed from U.S. soybeans.

That is, at least one of the crushers who lost the sale will now be under the EEP crusher soybeans. As a result of EEP, it will reduce its purchases of U.S. soybeans. The crushers likely to make the sale, the crushers like Cargill, Continental, and Dryfuss also have European Community facilities.

The possible upshot of this initiative is that it may displace the sale from the European Community of one of these companies to a U.S. division. Now, I am going to see an extremely complicated plot here.

What happens in the real world when we are talking, for example, about vegetable oil sales? I wonder what the rationale was for making this sale, and what trade policy was the USDA trying to achieve in that sale?

Mr. CROWDER. Well, I won't take all the time to go through the what-ifs and everything on a 60-ton sale after discussion of what might have been under some other sales this afternoon. But the trade policy issue there was that the Tunisian market is a major market for European oil, and it will displace European Community oil in that market and increase our market share.

Mr. GLICKMAN. Well, now, again, I may not have my facts right, but according to European sources, and again, that is the source of this, after the United States made several vegetable oil EEP offers last year sales, the world price of vegetable oil declined.

In fact, it declined enough that it became feasible for the United States to buy oil, and that is what happened.

In short, the United States perhaps was making vegetable oil, EEP's, to punish the European Community. But the European Community began selling vegetable oil back into the United States. I don't know whether you have any comment on that. I suppose it shows the complexity of this business.

Mr. CROWDER. That is one thing it does. There have been a number of issues with vegetable oil sales, importing vegetable oil, duty drawback, a lot of these issues that we have had with vegeta-

ble oil. But let me make a point I meant to make in response to your question about the beans not going. A vegetable oil sale from the United States will be made out of U.S. beans with the crushing and so forth, taking place here rather than there.

And I have heard some of the comments this week also, not this week, but last week, about the impact of bonus sales. There are the trade-offs. You have to make those, and when the proposal comes forward, unfortunately there is not a desk-top computer that tells you what the right decision is mechanically. It is a judgment call that you make at the time.

Mr. GLICKMAN. Do you have a set of regulatory principles or guidelines in writing on which the EEP operates which go out to exporters and anybody who wants to use the program? Is there a booklet to tell people how to participate in the EEP program, or have you issued regulations to this effect?

Mr. CROWDER. I don't know whether it is in a booklet or not, there are instructions that the exporters have to get for bidding procedures and everything else.

Mr. GLICKMAN. Those instructions are approved by whom?

Mr. CROWDER. They are approved, they have been approved by FAS, operating people in FAS.

Mr. GLICKMAN. I would be glad to yield again.

Mr. SMITH. Thank you, Mr. Chairman.

Following up on your question of security, Mr. Crowder, to your knowledge, does anybody on the Trade Policy Review Group trade in commodity futures?

Mr. CROWDER. Not to my knowledge.

Mr. SMITH. Isn't that a fair way to determine what is going on as far as security? If this information obviously has an impact on prices, as you are very aware—

Mr. CROWDER. Yes.

Mr. SMITH. I personally would like to know what, how secure it is arranged in the trade policy review group, which is sensitive to markets, which if those people by policy or by rule, if they are not, they ought to be deprived of dealing in futures commodities of any kind or dealing in any kind of commodity while they have information that may be sensitive to the price.

I think you would agree with that?

Mr. CROWDER. I would certainly agree with that.

Mr. SMITH. I would like a review of that. Mr. Chairman, if you wouldn't mind supporting my request—

Mr. GLICKMAN. I am sorry?

Mr. SMITH. I am trying to secure information from Mr. Crowder regarding the policy and the rule of the Trade Policy Review Group or any other group that has sensitive commodity information that may be creating future commodity markets or may be buying and selling commodities on the market, and if they are prohibited as they should be from using any sensitive information received as a part of their official duty.

Mr. GLICKMAN. I would certainly concur with that request.

Mr. GRANDY. That would apply to almost anything in the Foreign Agricultural Service? Assuming that they have sensitive trade positions.

Mr. SMITH. I am talking about the Trade Policy Review Group, which is the organization that passes on the determination of whether a sale will be made or put together, and then have prior information to the consummation of the sale. It is a narrow group.

Mr. CROWDER. Maybe it is so obvious to me, I don't know, because I have never been able to trade myself, but it is a basic conflict of interest, and I would think that it would be automatically covered, but we will follow up on the request, and it will show up, because I agree with you on that one.

Mr. GLICKMAN. I will be glad to cooperate with you on that, because I think it is a reasonable request.

Mr. Crowder, I guess the upshot of this hearing is that I remain concerned that, one, I remain supportive of the program. I think it is a helpful trade matter, but I remain concerned about the guidelines that this program operates under.

I think that we have a sufficient record here to recommend changes when we rewrite the 1990 farm bill to continue the program, but to provide some guidelines in it, because I think you are running a shop without any controls over there other than what you personally and some of the other high-level officials exercise.

But I think they are kind of ad hoc. And you are the Government grain board. You are in the process of selling grain. I mean, within the confines of cooperative private sector involvement. But you have an enormous amount of power, and we have to decide if we want you to have that power pretty much unfettered from public view and public comment.

It is a conflict. It is not your fault. You came into this thing a few months ago, and I am not trying to hold you personally responsible for this.

Mr. CROWDER. Let me make a couple of comments on that. I have told several people that I came to Washington believing that the markets ought to allocate most of the resources. I was a free-market economist before I came here, and after being in this job for 3 months, I am even more so.

My level of comfort is different than yours with respect to the amount of controls and procedures that are in place as we manage the program. You are free to write as many guidelines as you want, it is your responsibility and authority to do so.

But I would suggest two things: A, you want a program that not only exists but, B, you want to have a program and people responsible for that program that can be responsive to market conditions.

If not, what you write in terms of rules in one case may be inappropriate 3 months later, and you lose the opportunity. So, I, as I indicated in my testimony, I am more than willing to answer your questions. I think they are appropriate. I am more than willing to have OIG look at what we are doing, and I am looking forward to the GAO results, because we will benefit from those.

But I think that in the end, as long as we are in the position of having to have this program, there are going to have to be some judgments made with respect to approvals and denials, and so forth, of programs as they come through, and they can always be subject to second-guessing.

Mr. GLICKMAN. The big thing we have to ensure, however, is that the taxpayers are not only getting their money's worth, but there

are no preferential deals being made, and either on our side or on the importing side.

We are dealing with a lot of multinational grain companies that operate in many countries, sometimes they operate in the country to which an EEP offer is being given to, and I just need to know that you are operating at arm's length in all these transactions.

And what concerns me is if you don't have the controls in place, it is easy for this to slip through. That is probably one of the reasons why OMB and the Secretary himself sought a review of this program.

At first, I was upset about this, but I think probably they did the right thing. Hopefully, the GAO in your continuing review will look at these operational problems, because all we need is one more Richco kind of deal and the program is dead.

I don't think we want that to happen, and neither do you.

Mr. CROWDER. You are exactly right with respect to that. I have no tolerance for preferential deals myself, and welcome questions.

Mr. GLICKMAN. If you could yield for 1 minute. Nor do we want you operating like the Department of Defense during a classified program, nor do we want you operating like the Federal Reserve Board, although I see perhaps some parallels on an interim basis.

But, you know, this is an executive branch agency.

Mr. CROWDER. That, I appreciate, and I would think that if that is where the interests are, it would be good, and I would welcome the opportunity to focus the hearings on those, and much more so than second-guessing decisions.

Mr. GLICKMAN. Finally, to second-guess the decision, I will turn it over to Mr. Nagle. He is the best second-guesser around. But I do want to tell you I am disturbed about the fact that you don't have this Richco data for us. We have been going through this thing for too long now, and you needed to at least be—have the information as to what the facts were by this time.

Mr. CROWDER. Well, I think, as I indicated earlier, I am not happy by the timing on that, either, and OIG and OGC are both pursuing that, both expeditiously and diligently. I don't think that it will be very long before we have a response for you.

Mr. GLICKMAN. Mr. Nagle.

Mr. NAGLE [acting chairman]. Mr. Grandy.

Mr. GRANDY. No questions.

Mr. NAGLE. I have one question. Are you aware of whether or not the administration has given any consideration to the revival or waiver or an alteration of the Jackson-Vanik prohibition of sale to the Soviet Union?

Mr. CROWDER. The issue is under consideration. The status, I don't know. I understand it is under consideration.

Mr. NAGLE. Do you know about when we could expect or can we expect an announcement from the administration? I am not saying within 1 or 2 months?

Mr. CROWDER. The answer is, Mr. Congressman, I don't know the answer to that. As I understand it, it is under consideration.

Mr. NAGLE. All right. As one Congressman, I would simply say that I think that is, those prohibitions of Jackson-Vanik do need to be reviewed, and providing that conditions can be met—I would

certainly look to see a waiver perhaps on a trial basis. We urge the administration to adopt that position.

Mr. Smith, Mr. Grandy, do you have anything further? Do you have any concluding statement, Mr. Crowder or Mr. Mendelowitz?

Mr. CROWDER. Not by me.

Mr. NAGLE. Thank you very much. This hearing is concluded.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by Richard T. Crowder
Under Secretary for International Affairs
and Commodity Programs
U.S. Department of Agriculture
Before the Subcommittee on Wheat, Soybeans, and Feed Grains
House Committee on Agriculture
July 31, 1989

Mr. Chairman, members of the subcommittee, I am pleased to be back before you to discuss the Export Enhancement Program (EEP) and to answer questions you have concerning the program and its management. I learned very early in my tenure here how important the program is to you and how concerned you are with its management. The program and the way it is managed are also very important to our farmers, the trade, our customers and our competitors.

Today I would like to discuss the following with you:

- recent EEP activity;
- the results of the Department's study on the questions of cost effectiveness, budget neutrality and additionality;
- the status and content of our review of future program objectives and management; and
- questions you might have.

From May 1985 through last Friday, 104 EEP initiatives had been announced, targeting 65 countries and 12 commodities. The total value of EEP sales to date is \$8.4 billion, with bonuses of \$2.57 billion in either Commodity Credit Corporation commodities or commodity certificates.

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Since April 27, the date I last testified before the subcommittee, seven EEP initiatives have been announced covering five commodities to seven countries. Six of these initiatives have been announced in the past two months. Two things are happening with respect to EEP activity. First, the level of activity is picking up, and second, there is a greater balance among commodities. Our objective is to get the maximum amount of trade policy leverage from each EEP bonus award made. This will be particularly important if Congress continues to reduce the program level.

In late 1988, the Office of Management and Budget (OMB) requested that the U.S. Department of Agriculture (USDA) undertake a study of the EEP to assess whether the program was meeting its objectives and operational criteria.

The attribution of outlays to the program by the Congressional Budget Office was one of the factors prompting these questions, due in a large part to the program's budget neutrality criterion of the program. The questions from OMB were appropriate.

We have completed the study and it is attached to my testimony. It was conducted by a USDA task force representing several agencies and has a solid theoretical base and empirical evidence to support its conclusions. Since you have the study, let me highlight the results here.

The study concludes that the principal objectives of the EEP have largely been met. The program has challenged unfair trade practices, expanded U.S. agricultural exports, and spurred trade negotiations.

The study also concludes that the EEP operational criteria generally have been met.

--The program has been targeted;

--Additionality of between 10 and 30 percent depending on market conditions and other factors has been achieved for U.S. wheat exports;

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- Budget neutrality, although difficult to measure, has been demonstrated for wheat exports under the program by econometric analysis;
- There have been net economic benefits for the economy as a result of the program.

A third finding of the study was that program objectives and criteria need to be clarified and more closely related so that they do not work at cross purposes.

Going beyond this study, we have also analyzed what we feel are the appropriate objectives and method of operation of the program as we go forward. This analysis is now before the interagency group for review, and I would like to share with you some of the highlights of our proposal.

But first, let me comment on the input used in our analysis. We obviously were conscious of and considered the questions and concerns we heard from this subcommittee. We have spent a lot of time talking with commodity groups and with members of industry. These groups have had, and still have, a number of concerns about the program and its operation. And, while we may not have addressed them all, their input was valuable.

Our discussions with our competitors and customers about the program also influenced our thinking, particularly with respect to the importance of the EEP's trade policy objectives. Finally, we drew on the input from a broad group of experts in USDA and OMB. The proposals sent forth and highlighted below are USDA recommendations and we welcome your questions and comments.

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The USDA proposal includes the following components:

- Focus the program primarily on trade policy and trade negotiation objectives. Once these trade policy objectives are achieved, the program should be phased out.
- Continue targeting the program to countries where there is unfair subsidized competition, and where the EEP is needed to bridge the difference between subsidized prices offered by competing exporters and U.S. prices.
- Focus on commodities and countries where the United States can compete if trade subsidies are eliminated.
- Subsidy allocations will be commensurate with market price differentials, focused on trade benefits to help ensure that the program has minimal effects on budget outlays.
- Improve USDA procedures for the review, analysis and selection of individual EEP proposals.
- More responsive interagency approval process.

One final operating guideline that we have is to minimize the effects of the program on normal commercial marketing channels and practices. The intent of the program is to ensure the export competitiveness of U.S. agricultural commodities, not to replace or disrupt normal commercial marketing channels. While some market disruption is probably inevitable, efforts will be taken to ensure that it is minimal.

I would again point out that these proposals were sent to the interagency group only last week and we have not yet received approval. However, USDA believes these recommended changes will result in a more effective and efficient EEP.

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During my last testimony before the subcommittee, the primary concerns were the future direction and operation of the program and who was responsible for managing it. I want to make four points in this regard. First, we believe that EEP is an important trade policy tool. Second, we feel we have proposed sound objectives and operating guidelines for the program. Third, USDA is responsible for managing the program. Fourth, we have received strong support from the interagency group in general and OMB in particular, regarding EEP initiatives.

In reference to a point I made earlier, I want to express my concern about the recent budget reconciliation action by the House Agriculture Committee to cap the EEP at \$500 million for 1990 to score budget savings. As you will recall, we had previously asked that no program ceiling be placed on EEP. Capping the EEP sends the wrong signal to our competitors and reduces our flexibility to deal with changing market conditions. This, coupled with the fact that we do not know what actions our competitors will take in the marketplace, makes the cap very inappropriate. In addition, the administration has scored the program as budget neutral and therefore OMB has indicated that it would not score any savings if the limitation is enacted since the original \$1 billion level was assumed to be budget neutral.

Finally, we at USDA are aware of the importance this subcommittee attaches to its oversight role for EEP. We welcome that. As responsible managers, we recognize the importance of and benefits from proper review and control procedures. In this regard, I would point out the following: we have our own review and compliance group. The USDA Inspector General is in the process of completing a study of EEP. The General Accounting Office also has a study underway. We plan to use the results of all of these to improve the management of the program.

Mr. Chairman, that concludes my testimony. I will be happy to answer any questions.

QUESTION FROM CONGRESSMAN ENGLISH 1

QUESTION:

How much grain is available from CCC stocks and the Farmer Owned Reserve (FOR) after allowing for emergency reserves? How much then would that leave available for EEP? So you have the breakdown of what is, wheat and corn? How much corn would be available for EEP?

ANSWER:

Wheat. As of September 1, 1989, total CCC wheat stocks were 168 million bushels, down 11 million bushels from the August 1 report. Given the 92 million bushels in the Food Security Reserve (FSR) for wheat, CCC stocks available for certificate exchanges, EEP, or other uses will be approximately 76 million bushels. The September 1, 1989 report shows 217 million bushels of wheat in the FOR.

Feed Grains. As of September 1, 1989, total CCC feed grains stocks were 741 million bushels of which 363 were corn. Given the 75 million bushels of feed grains in the Disaster reserve, CCC feed grain stocks available for certificate exchanges, EEP, or other uses will be approximately 666 million bushels. The September 1, 1989 CCC report showed 799 million bushels of feed grains in the FOR of which 753 million bushels were corn.

QUESTION FROM CONGRESSMAN ENGLISH 2

QUESTION:

How much grain is required to be held for emergency purposes?

ANSWER:

USDA has two emergency reserves it must maintain: the Food Security Wheat Reserve for wheat and the Disaster Reserve for feed grains.

The Food Security Wheat Reserve (FSR) for wheat is mandatory but the minimum level is discretionary. Until FY 1988, FSR holdings were at the maximum level of 147 million bushels of wheat. In October, 1988, the President authorized the release of 55 million bushels from the FSR. Most of the authorized wheat has been withdrawn so the current level of wheat in the FSR is approximately 92 million bushels. USDA anticipates an additional drawdown of the FSR during FY 1990 but such use must be authorized by the President. Replenishment of the FSR is at the discretion of the Secretary of Agriculture.

The Disaster Reserve (DR), for feed grains must be maintained at a minimum level of 75 million bushels. There is no requirement as to what types of feed grain must be in the DR.

QUESTION FROM CONGRESSMAN ENGLISH 3

QUESTION:

Has the EEP been used with regard to any countries since that Soviet sale (May 2, 1989)?

ANSWER:

Yes, six times.

June 9, 1989:	250,000 MT of wheat four to Egypt
July 11, 1989:	225,000 MT of barley to Saudi Arabia
July 14, 1989:	48,000,000 eggs to Hong Kong
July 29, 1989:	200,000 MT of barley to Turkey
July 25, 1989:	60,000 MT of vegetable oil to Tunisia
July 28, 1989:	1,000,000 MT of wheat to Algeria

QUESTION FROM CONGRESSMAN PENNY 4

QUESTION:

How much of EEP has been allocated for high-value purposes?

ANSWER:

OF the 103 EEP initiatives to date, 52 involve high-value commodities, broken down into: Malt 10, Cattle 11, Flour 10, Eggs 5, Veg Oil 5, Seminola 2, Poultry 9.

QUESTION FROM CONGRESSMAN VOLKMER 5

QUESTION:

Who initiated the Soviet vegetable oil EEP?

ANSWER:

The Soviet vegetable oil EEP was initiated in response to U.S. private sector interest. The U.S. Department of Agriculture has reviewed similar requests in the past initiated by the Soviet Union.

QUESTION FROM CONGRESSMAN JONTZ 6

QUESTION:

Has ERS studied, or will they study, the impact of EEP on domestic producers?

ANSWER: Our assessment indicates that EEP has had a very slight effect on net farm income. The increased volume of exports have raised the average U.S. farm price and, thereby crop receipts. But the higher market prices have also reduced government payments, leaving gross cash income virtually unchanged. Expenses are also essentially unaffected, leaving net farm income also unchanged. For non-program commodities included in the EEP, such as poultry, the income effects may be more significant. Non-program items have represented a small share of EEP sales and relatively small shares of exports of these commodities have been EEP assisted.

Nonetheless, a major effect of the EEP has been to improve the outlook for commodity prices by reducing burdensome CCC stock levels. Our assessment is that CCC wheat stocks would have been 60 percent to 160 percent higher at the end of the 1988/89 crop year if we had not had the EEP. The stock reduction strengthened current and future market prices and reduced CCC storage costs, while U.S. exports and global market share increased.

IMPACTS OF EEP ON FARM INCOME

	Actual		1988 : 1986		No EEP	
	1986	1987	1988	1986	1987	1988
	(Bil. \$)					
Crop Receipts	64.0	63.8	72.6	63.8	63.4	71.8
Livestock Receipts	71.5	75.7	78.9	71.5	75.7	78.9
Total Cash Receipts	135.5	139.5	151.5	135.3	139.1	150.7
Government Payments	11.8	16.7	14.5	11.8	17.1	15.3
Gross Cash Income	152.5	162.0	171.6	152.3	162.0	171.6
Cash Expenses	100.7	104.3	111.7	100.7	104.3	111.7
Net Cash Income	51.8	57.7	59.9	51.7	57.7	59.9
Inventory Adjustment	-2.7	-0.4	-4.3	-2.7	-0.4	-4.2
Gross Farm Income	160.4	171.6	177.6	160.3	171.7	177.7
Total Production Exp.	122.4	124.5	132.0	122.4	124.5	132.0
Net Farm Income	38.0	47.1	45.7	37.9	47.2	45.8

QUESTION FROM CONGRESSMAN SMITH 7

QUESTION:

What are the estimated savings to CCC storage costs from the EEP?

ANSWER:

As of June 30, 1989, CCC had issued \$2,210 million of commodity certificates as EEP bonuses. It is assumed that the vast majority of these certificates were redeemed for commodities owned by CCC. Total certificate redemptions for CCC commodities stood at \$6,634 million as of June 30, 1989, well above the level of EEP bonus certificates issued.

It is estimated that the commodity certificates issued as EEP bonuses since inception of the program have been redeemed for over 900 million bushels of CCC-owned grain. Based on an average cost of \$.34 per year to store each bushel of grain, the savings in storage costs to CCC resulting from these EEP bonuses is approximately \$330 million for each one year period during which the grain is stored.

Total CCC storage savings resulting from EEP bonus awards are probably considerably greater than this estimate of one year savings. This is due to the fact that EEP bonus certificates issued and redeemed for commodities in the early years of the program have resulted in storage savings for CCC for more than one year. In other words, had the grain not been redeemed as a result of the EEP it is likely to have remained in storage for several years.

Estimated CCC storage savings are likely to have been even higher when additional exports, resulting from the program, are considered. Without, the EEP these commodities might have been forfeited to CCC as price-support loans became due, resulting in higher storage costs to CCC.

QUESTION FROM CONGRESSMAN VOLKMER 8

QUESTION:

Can you tell me how much EC wheat intervention stock there are at the present time?

ANSWER:

See Attached Graph.

EC Intervention Stocks of Major Grains
(1,000 Metric tons)

Commodity	Opening Stocks 1/	Purchases	Internal Sales	Export Sales	Current Stocks 3/
Common Wheat (breadmaking and feed)					
80/81	2,040				
81/82	2,529				
82/83	1,583				
83/84	5,834				
Breadmaking Wheat					
84/85	3,313	2,985	409	1,586	4,302
85/86	4,302	1,247	422	2,000	3,007
86/87	2,917	2,332	305	919	3,781
87/88	4,232	574	754	1,697	2,284
88/89 2/	2,576	1,286	178	945	2,705
Feed Wheat					
84/85	5	6,054	109	-	5,949
85/86	5,996	4,475	656	1,868	7,646
86/87	7,401	152	1,589	2,074	3,731
87/88	3,083	775	361	1,899	1,566
88/89 2/	1,991	92	1,150	716	200
Durum Wheat					
84/85	550	560	25	276	760
85/86	760	660	184	328	894
86/87	887	732	13	-	1,600
87/88	1,537	1,556	40	790	2,260
88/89 2/	2,325	570	171	1,547	1,164
Barley					
84/85	221	3,136	-	1,346	2,012
85/86	2,720	5,029	310	1,614	5,808
86/87	5,303	2,933	1,265	2,479	4,485
87/88	4,235	1,787	500	1,783	3,685
88/89 2/	3,928	1,705	613	1,703	3,300

1/ Reflects change in marketing years from Aug/July to July/June

2/ Preliminary as of June 15, 1989

3/ Reflects end of intervention season, which varies for each year.

Note: Supply and use will not balance because of different time frames and use does not include food aid sales.

QUESTION FROM CONGRESSMAN GRANDY 9

QUESTION:

Does the Department of Agriculture have a position on Cargo Preference?

ANSWER:

During the consideration of the 1985 Farm Bill, a compromise was reached on cargo preference. The compromise allowed for a statutory tonnage increase from 50 to 75 percent, with the understanding that cargo preference would not be expanded to cash or commercial transactions.

The Department strongly opposes any expansion of cargo preference requirements.

Congress currently is considering legislation that would apply cargo preference to cash transfers under the Economic Support Fund (ESF). By extending cargo preference requirements to ESF cash transfers's, the result is increased shipping costs at the expense of the U.S. economy.

When contemplating expanding cargo preference requirements, it is important to realize that these increased shipping costs are not simply passed on to a captive foreign buyer. Extending cargo preference requirements to commercial agricultural trade likely would reduce agricultural exports and farm commodity prices. With the additional shipping costs, foreign buyers would be forced to pay more for U.S. farm products and have an incentive to shift to alternative suppliers to maintain their food supply. Cargo preference requirements have the effect of making U.S. products more expensive and therefore less competitive, leaving the foreign buyer with less money available to purchase U.S. agricultural exports or forcing the buyer to turn to alternative suppliers. This results in a reduction in U.S. farm income, a rise in the cost of our support programs and larger budget outlays. This is in direct conflict with the overall United States objectives of increased agricultural exports, lower budget deficits, and providing food assistance to poor nations.

United States agricultural exports have become increasingly competitive and have begun to increase after a period of decline. The Department strongly opposes any further extension of cargo preference costs which would hinder our competitiveness and place a harmful burden on our farmers, exporters, agricultural industry and the American taxpayer.

Expansion of cargo preference clearly may erode the level of United States agricultural exports, at the expense of American farmers and taxpayers, while not addressing the problems facing the United States merchant marine. We urge Congress to reject expanded cargo preference provisions and to continue to work with the U.S. merchant marine to become increasingly competitive and efficient rather than allowing the industry to continue to deteriorate.

QUESTION FROM CONGRESSMAN SMITH 10

QUESTION:

I personally would like to know what, how secure it is in the trade policy review group, which is sensitive to markets, which of those people by policy or by rule, if they are not, they ought to be deprived of dealing in futures commodities of any kind or dealing in any kind of commodity information that may be sensitive to the price. Do you agree with that.

ANSWER:

The Trade Policy Review Group established pursuant to regulations of the Office of the United States Trade Representative (15 C.F.R. 2002.1) is chaired by a Deputy Trade Representative and includes also high level officials designated from their respective agencies or offices by the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury, and the Executive Director of the Council on International Economic Policy. Other high level officials of each of the named agencies may be designated as alternate members in the event the regular member is unable to attend any meeting of the Trade Policy Review Group. However, all are United States Government employees and are, therefore, subject to section 208 of title 18, United States Code. That section provides for fine or imprisonment, or both, for any Government employee who participates personally and substantially as a Government officer or employee in any matter in which, to his or her knowledge, the employee or his or her spouse, children, business associates, or person with whom the employee is negotiating for prospective employment, has a financial interest.

We understand that the prohibitions of the statute are supplemented by regulations issued by the Executive Office of the President and each of the agencies represented on the Trade Policy Review Group. In most cases, Government employees are barred from any activity (whether or not specifically prohibited) which might result in, or create the appearance of, using public office for private gain (See, e.g., 3 C.F.R. 100.735-4(c)(1); 7 C.F.R. 0.735-11(a)(1)). In the case of the Department of Agriculture, any person who is concerned in any way with the administration of programs for the purchase or sale of commodities, price support programs, or other programs which directly affect market prices of agricultural commodities is prohibited from speculating directly or indirectly in any agricultural commodity (7 C.F.R. 0.735-14(a)(4)).

THE EXPORT ENHANCEMENT PROGRAM: REVIEW AND ASSESSMENT
OF PROGRAM CRITERIA AND OBJECTIVES

MAY 15, 1989

FOREWARD

Since its inception in 1985, the Export Enhancement Program (EEP) has been a major component of the U.S. Government's set of agricultural export expansion and trade policy tools. However, issues regarding the program's budget impact as well as its effectiveness in expanding exports have been raised.

Although the program has operated under guidelines to prevent it from increasing budget outlays and the President's Budget assumes it has no impact on domestic farm program outlays, the Congressional Budget Office (CBO) has issued reports which assert that EEP does increase outlays. This has made reductions in annual EEP program levels an option for the Congress in meeting budget reduction targets. In order to claim a "savings" in FY 1989 spending levels, Congress put a cap on EEP bonus awards at a level below that assumed in the President's Budget. In addition, supply/demand conditions for wheat and other affected commodities have changed significantly since the program was initiated.

For these reasons the Office of Management and Budget (OMB) requested the Department of Agriculture (USDA) to work with OMB to assess the EEP with particular emphasis on budget effects and export expansion or "additionality". The scope, outline and schedule for this study were agreed to by USDA and OMB staff in February 1989.

This assessment was not requested by the Trade Policy Review Group (TPRG) or Economic Policy Council (EPC), and member agencies other than OMB have not been consulted on methodology or assumptions. Therefore, the evaluation is not designed specifically to meet the full range of needs of the interagency groups, rather it primarily addresses budget implications of the program. While the study may also provide a basis for further deliberation by interagency groups and others about other aspects of the program, it does not address the entirety of benefits and costs of the program nor does it review all aspects of program operating procedures. (Many of the non-budget issues will be addressed in a policy review of the EEP which is being prepared separately for submission to the TPRG.)

The study is based on an assessment of past performance, does not make projections of future performance, and does not contain specific recommendations for the future operation of the program. The analysis concentrates on wheat which has constituted about 85 percent of the program's export volume.

Specifically this study:

- Reviews the development and evolution of annual EEP support for wheat exports to date.

- Analyzes and summarizes estimates of the annual "additionality" or export expansion resulting from EEP wheat sales.
- Analyzes and estimates annual impacts of the EEP wheat sales on Commodity Credit Corporation (CCC) budget outlays.
- Assesses EEP's overall past performance with regard to the four criteria used for operation of the program (i.e. additionality, budget neutrality, targeting, and cost effectiveness) based on findings from the above review and analysis.
- Draws conclusions from the study's findings regarding the program's progress toward achievement of its primary objectives to expand exports, challenge unfair trade practices, and encourage serious international negotiations on agricultural trade problems.

The study does not:

- Analyze EEP exports of commodities other than wheat, nor does it analyze individual wheat export initiatives or the decisionmaking procedures for conduct of the program.
- Analyze or estimate fully the economic impact of EEP on importers, domestic producers and consumers, nor does it assess the full impact on each major competing exporter.

This report provides only part of the empirical, analytical and evaluative basis for development of future plans for the EEP. Hence, it does not provide detailed projections and recommendations for future operations.

The study was conducted by a working group, including members from the Department's Office of Budget and Program Analysis, Economic Analysis Staff(EAS), Foreign Agricultural Service(FAS), and Economic Research Service(ERS). The study draws on a number of economic analyses of the EEP which had previously been initiated by ERS and others, program information from FAS, a General Accounting Office review of the program, CBO documents, and additional economic analyses performed by EAS.

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**THE EXPORT ENHANCEMENT PROGRAM: REVIEW AND ASSESSMENT
OF PROGRAM CRITERIA AND OBJECTIVES**

EXECUTIVE SUMMARY

The Export Enhancement Program (EEP) was established in May of 1985 by the Secretary of Agriculture to counter precipitous declines in U.S. agricultural exports and to challenge subsidized export competition, particularly from the European Community (EC). Combined with policy changes authorized by the Food Security Act of 1985, mainly reduced price-support loan rates; a commodity certificate program that released stocks from government storage; and macroeconomic factors; the EEP has been an important part of an aggressive export-oriented set of agricultural policies. These policies along with favorable economic developments have helped reverse the dramatic decline in U.S. agricultural exports that occurred in the first half of the 1980s.

These policies have also helped position U.S. agriculture in a more competitive market-oriented stance and have provided incentives for negotiations to reduce trade barriers and the trade distortions of agricultural subsidies. The EEP, as a targeted direct export subsidy, has been the most visible and controversial component of the broader set of U.S. policies.

PROGRAM REVIEW

Under the EEP, subsidies are provided to U.S. exporters in the form of commodity certificates which can be exchanged for Commodity Credit Corporation (CCC) commodities. These bonus payments enable exporters to sell at reduced prices competitive with those offered by other exporters, particularly the EC. EEP sales are made on the basis of price and bonus bids submitted by exporting firms in response to solicitations by the targeted buyers. Buyers accept price bids contingent on acceptance of the price and associated bonus bids by the United States Department of Agriculture's (USDA) Foreign Agricultural Service.

Initiatives under the program are selected and approved through an interagency basis. The program is guided by four administratively determined criteria:

Additionality--EEP sales must increase U.S. agricultural exports above what would otherwise have occurred in the absence of the EEP.

Targeting--sales will be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports.

Cost effectiveness--sales should result in a net plus to the overall economy.

Budget neutrality--sales should not increase budget outlays beyond what would have occurred in the absence of the program.

From May of 1985 through April 21, 1989, 102 EEP initiatives have been announced targeting 65 countries and 12 commodities. The total value of EEP sales to date is \$8.1 billion, with bonuses of \$2.5 billion in CCC commodity certificates. The program has been mainly used to subsidize wheat exports, with wheat and flour accounting for 85 percent of the EEP sales volume and 70 percent of the value of bonuses. Other commodities include barley, barley malt, dairy cattle, eggs, frozen poultry, poultry feed, rice, semolina, sorghum and vegetable oils.

In FY 1988, EEP assisted sales accounted for about 65 percent of the value of wheat exports, 50 percent of barley exports, and 25 percent of vegetable oil exports. While EEP sales were a much smaller share of the exports of other commodities, EEP bonuses were important for assisting their exports. During FY 1988, the peak year for EEP sales, 9.2 percent of total U.S. agricultural exports was assisted by the EEP. Total EEP sales in FY 1988 were \$3.3 billion with bonus awards of about \$1 billion. As of April 21, 1989, FY 1989 EEP sales stand at just over \$2.3 billion, with bonuses awarded at \$300 million.

EEP Issues

Estimates by the Congressional Budget Office that the EEP increases budget outlays have made reductions in the EEP program levels an option for the Congress to meet deficit reduction targets. To claim a "savings" in FY 1989 spending levels, Congress put a \$770 million cap on EEP bonus levels which was below the \$900 million level assumed in the President's Budget.

If the EEP expands exports, contributes to progress in multilateral trade negotiations, and is budget neutral, then overly restrictive constraints on the program would be counterproductive. But if EEP significantly affects budget outlays, then Executive Branch budget assumptions may need review.

Commodity stocks held by the CCC have been reduced substantially since 1985 and global inventories of grain are low as well, partly due to the effects of U.S. policies since 1985 as well as the 1988 North American drought. The resulting higher world grain prices have narrowed the gap between U.S. and key competitors' prices in contested markets. Given this situation and uncertainty about the 1989 wheat crop in particular, EEP sales activity has been slowed

in recent months. At the same time, the transition to a new administration and current pressures to reduce Federal outlays have made it appropriate to assess the EEP.

A review and assessment of the EEP to date has been made by a USDA working group at the request of the Office of Management and Budget. The scope of this study agreed to by USDA and OMB staff does not include the full range of EEP issues that may be of interest to interagency groups with responsibilities for review of the program. The study addresses concerns about the program's additionality and budget effects. Specifically, it:

- o Reviews EEP support for wheat exports to date.
- o Analyzes annual additionality or export expansion resulting from EEP wheat sales and the effects on CCC outlays.
- o Assesses EEP's performance with regard to the four criteria for program operations to the extent possible based on the analyses of wheat EEP sales.
- o Assesses progress toward achievement of the EEP objectives.

The study does not:

- o Analyze EEP exports of commodities other than wheat, nor does it analyze individual wheat initiatives or the decisionmaking procedures for conduct of the program.
- o Analyze or estimate fully the economic effects of the EEP on importers, domestic producers and consumers, nor does it assess the full impact on each major competing exporter.

This study provides only a part of the basis for development of future plans for the EEP; thus, it does not provide detailed projections or recommendations for future operations.

WHEAT EEP REVIEW

EEP wheat shipments increased from about 12 percent of 1985/86 wheat export volume to almost 70 percent in the 1987/88 marketing year. The program initially targeted a small group of countries in North Africa and the Middle East which had received large volumes of EC subsidized wheat. While only 13 countries were targeted during the first full year of operation, a total of 44 countries were eventually offered EEP wheat. Significant additions included the Soviet Union in 1986 and China in 1987; these centrally-planned countries have accounted for a large share of EEP sales.

U.S. wheat exports, which had declined from 48.8 million tons in 1981/82 to 25 million tons in 1985/86, increased to over 43 million

tons in 1987/88 as the United States regained world market share. At the same time, due in part to the EEP the EC's wheat export volume declined slightly over 1 million tons and its world market share dropped from 19 to 15 percent in 1987/88. In 1988/89, EC wheat exports and market share increased mainly because of a drop in world export supplies, especially in Canada.

EC wheat export restitutions, or subsidies, grew from \$365 million in 1985 to about \$1.8 billion in 1988 as the EEP, lower U.S. price-support loan rates, and dollar depreciation forced the EC to increase its subsidies in order to compete with U.S. wheat exports. An estimated 35-40 percent of the increase in EC restitutions is attributable to the EEP.

ASSESSMENT

The effectiveness of the EEP depends on whether it can be shown to have achieved additionality or expansion of export volume above what would have occurred without the program. Furthermore, additionality is necessary in order for the program to be budget neutral. Expanded exports are necessary to absorb the bonus CCC commodities released to the market through the commodity certificates, which would otherwise depress farm prices and increase CCC outlays.

Additionality is also necessary if the program is to be cost effective as measured by the net benefits from export expansion. Long-term benefits to the economy include future budget savings that might occur as a result of successful trade negotiations or constructive policy changes in other countries induced in part by pressure from the EEP. However, long-term benefits may not necessarily depend on short-term additionality. Targeting is a means to help achieve additionality and to focus the economic pressure exerted by the EEP on those competitors who heavily subsidize exports.

Findings

Targeting: The EEP is a targeted export subsidy rather than a uniform across-the-board subsidy. The EEP has been targeted primarily at those markets where the EC subsidizes exports or threatens to do so. The program has focused heavily on wheat since substantial increases in highly subsidized EC wheat exports have been a major factor in the world market for wheat. Also, the size of the U.S. share of the world wheat trade increased the potential for additionality through subsidies compared to what would be the case with other commodities such as corn for which the United States is the world's dominant supplier.

The countries originally targeted by EEP were those in which the EC had taken major wheat market shares through heavy subsidization.

As the EC responded to losses of sales in the EEP targeted markets, the EEP was extended to other countries. In time, the EEP expanded initiatives to the new markets targeted by the EC in order to maintain an effective challenge to the EC's subsidies. While this maintained pressure on the EC, other exporters have undoubtedly been affected despite the fact the special arrangements have been made under the EEP to maintain import purchases from non-subsidizing sellers.

The discriminatory effects of the EEP are noticed by importing countries. Some traditional U.S. customers complain about being excluded from the EEP. The program creates an incentive for importers to seek EC offers to provide subsidized sales which might then encourage targeting by EEP to prevent loss of U.S. market shares. In a competitive world market, it is difficult to isolate the effects of a targeted export subsidy and to maintain a narrowly focused targeting scheme.

Despite these problems, targeting has succeeded in exerting pressure on the EC. The EEP is estimated to have been an important contributor to the increased EC budget outlays for export subsidies.

Additionality: The EEP has been one of several factors including reduced price-support loan rates and smaller and poorer quality supplies in other countries that have contributed to the rise in U.S. wheat exports since 1985/86. EEP moderated the decline in wheat exports during 1985/86 when U.S. farm price supports were far above competitors' levels. According to one study, the EEP contributed to about a third of the total increase in U.S. wheat exports in 1986/87 and about a fifth of the increase in subsequent years.

Economic studies of the EEP's additionality indicate that U.S. wheat exports were increased by as much as 10-30 percent in 1986/87 and by just under 10 percent in 1987/88 as a result of the EEP. The estimates are subject to uncertainty since they depend on assumptions about how competing countries and importers would have behaved had the EEP not been in place.

On a country-by-country basis, EEP probably achieved a higher level of additionality in markets where the EC had been a major seller and the United States had held smaller market share prior to the EEP, than in those markets where the EC had been less dominant. By permitting U.S. exporters to offer competitive prices comparable to those offered by competitors, the EEP encouraged targeted importers to switch to U.S. commodities. The EEP may also achieve some additionality by making it possible for targeted importers to purchase larger total imports at lower prices. Overall, greater additionality is likely when importers are highly responsive to prices, competitors' supplies are responsive to world market prices, importers are willing to switch among suppliers, world

export supplies are large, and the U.S. share of the targeted market is small.

Budget Neutrality: This analysis indicates that the EEP has generally met the budget neutrality criterion with respect to wheat program outlays, and in fact is estimated to have reduced outlays over the past three years. In aggregate, the EEP is likely to have been budget neutral, especially if wheat program savings offset any increased outlays due to EEP support for those commodities not covered by price and income support programs.

The budget outlay effects are indirect--the issuance of commodity certificates to participating exporters has no direct outlay effect. It is recorded as a "realized loss" from the disposition of CCC assets without corresponding sales receipts. Realized losses do not affect the budget deficit. Outlays for the commodities exchanged for certificates were incurred at the time the price-support loan was made, although storage outlays continue as long as they are held. EEP commodity certificates are nearly all exchanged for CCC-owned commodities, unlike those issued to farmers for deficiency payments which have largely been used by farmers to pay off price-support loans in lieu of cash payments. Thus, while certificates used for deficiency payments have about the same outlay effect as cash payments, the EEP certificates do not have this effect.

The key to the EEP's outlay effect is the extent to which it increases exports relative to the quantity of CCC stocks added to market supplies from the exchange for bonus certificates. The release of CCC commodities through the certificate exchanges expands free stocks--those not owned by the government nor held by producers in the farmer-owned reserve--which would depress market prices if not offset by expanded exports.

If the bonus commodities were not absorbed by added exports, then any savings from reduced storage costs for CCC-owned commodities would be more than offset by greater price-support lending as CCC acquired the excess supply and by potential increases in deficiency payments due to reduced prices. If EEP expands exports sufficiently to absorb the bonus commodities, then CCC storage cost savings are realized and outlays for price-support lending and deficiency payments decline. Thus, it is the relationship between additionality and bonus levels and not the absolute level of additionality that determines the EEP's effect on budget outlays.

The effect of the EEP on CCC outlays, like additionality, may fluctuate with changes in market conditions and other factors that influence additionality or bonus levels. Both bonus levels and estimated additionality have generally varied widely over time and among markets. However, both have varied in parallel fashion. Relatively high additionality during the early stages of the program were achieved with high bonus payments. Later, as ad-

ditionality as a percent of total EEP sales declined, average bonus levels also declined. Hence, the relationship between additionality and bonus levels has tended to move in a manner that would minimize the EEP's effect on budget outlays.

Estimated changes in outlays for the CCC wheat program as a result of the EEP depend on assumptions about the responsiveness of export demand to prices or EEP additionality. An econometric model that estimates wheat outlays shows that the EEP has been generally budget neutral over the 3-year period, 1986/87-1988/89. Assuming a moderate to high export response, the EEP resulted in estimated outlay savings each year and a total outlay reduction of 10 percent (\$800 million) over the 3-year period.

If a lower export response is assumed, the EEP increased wheat outlays a little in 1986/87 and 1987/88 but reduced outlays in 1988/89. Under these assumptions, the EEP increased wheat outlays by 2 percent over the 3-year period (\$100 million) compared to outlays in the absence of the EEP. This is a relatively minor impact in view of total CCC outlays which averaged over \$20 billion annually during the FY 1986-88 period.

This analysis suggests that the EEP has had a favorable effect on CCC outlays by accelerating the reduction of CCC stocks and the increases in farm prices compared to what would have happened without the program. These results raise questions concerning the empirical basis for the CBO's position that there are large outlays associated with the EEP.

Cost Effectiveness: The net benefits of the EEP to the U.S. economy depend on the relationship of the economic benefits and costs to producers, consumers, and taxpayers. Producers benefit from the expansion of exports due to the EEP which contribute to higher farm prices, larger production, and farm income. Benefits to farmers also have economy-wide multiplier effects. It is estimated that every \$1 of farm products exported generates up to \$2 of business activity across the country. The actual increases in economic activity due to the EEP depends on the extent to which additional exports result in new production and resources are fully employed.

Taxpayers appear to have benefited from the EEP as farm prices rose and outlays for farm programs fell. These taxpayer benefits must be weighed against the increase in CCC realized losses from the disposition of CCC assets without corresponding sales receipts. The EEP has resulted in some loss to consumers by shifting farm income support from taxpayers to consumers. However, the EEP's effects on consumers has been small because of the relatively minor importance of raw commodity prices in determining retail food prices. This is especially true for wheat which represents about 5 cents of the total retail price of a loaf of bread.

Over the long-term, the net benefits of the EEP depend on its contribution to a successful outcome of agricultural trade negotiations. It is estimated that multilateral liberalization of agricultural trade in 1988 would have added about \$9 billion to the net economic welfare of the United States.

SUCCESS IN MEETING OBJECTIVES

The objectives for the EEP are to increase U.S. farm product exports, challenge unfair trade practices of competitors, and to pressure trading partners to negotiate seriously to reduce trade barriers and to eliminate trade-distorting subsidies. This study concludes that these objectives have been met.

Total exports of the commodities under the EEP are likely larger than they would have been in the absence of the program. There is a clear preponderance of evidence that wheat exports are larger because of the EEP. Export subsidization has worked as expected to enhance exports.

Substantial pressure has been exerted on the EC by the EEP along with other U.S. policies including lower price-support loan rates. EEP initiatives have cut into EC export sales and increased budget pressures on the EC.

The aggressive U.S. export posture adopted in 1985 including the implementation of the EEP undoubtedly has spurred trading partners to support multilateral agricultural negotiations. At the time the EEP was initiated there was no agreement that agricultural issues should be addressed in any pending negotiations. Thus, the EEP has been an important factor contributing to the attention given to agriculture in the Uruguay Round. However, continued pressure may be necessary for a successful conclusion of these negotiations.

EXPORT ENHANCEMENT PROGRAM: REVIEW AND ASSESSMENT
OF PROGRAM CRITERIA AND OBJECTIVES

CHAPTER 1. BACKGROUND

The Export Enhancement Program (EEP) was developed in an environment of sharply lower U.S. agricultural exports, subsidized competition, high Commodity Credit Corporation (CCC) stock levels and commodity program outlays, and much concern over the welfare of the farm sector. An export boom for U.S. agricultural exports ended in fiscal year 1981. Over the 1973-1981 period, U.S. export sales had grown at a rate five times their 32-year historical rate. This growth was due to exceptionally favorable macroeconomic conditions resulting from increases in primary product prices and improved export earnings among many developing countries.

U.S. agricultural policies were conducive to the rapid growth in exports of grains in the 1970s. A relatively low and constant wheat price-support loan rate from 1965 through 1973 helped U.S. competitiveness and dampened competitors' incentives to increase production and exports. This placed U.S. wheat exports in a favorable position when foreign import demand increased from rising populations, economic growth, and policy changes.

The United States also enjoyed rapid export growth for field crops with the opening of China and the USSR to greater trade, particularly for grain. To a considerable extent this growth was due to internal policy decisions of these two centrally-planned economies. However, U.S. agricultural policies, geared toward dependability of supply at competitive prices, may also have played a role in the expanded trade between the United States, China and the USSR.

Over the FY 1981-85 period, total U.S. agricultural export volume declined almost 30 percent. Between 1981 and 1986, U.S. agricultural exports lost 15 percent of world market share. For many of the basic commodities, such as grains, this reversal was caused by changes in U.S. policy as well as unfavorable economic conditions. The 1980 Soviet embargo dealt a major set-back to Soviet imports of U.S. commodities. Price-support loan rates, increased to protect U.S. farmers against damage from the embargo, made the U.S. uncompetitive and contributed to importing countries' concerns about long-term import dependency for basic commodities. Sharp dollar appreciation further hurt U.S. competitiveness.

These developments provided incentives to U.S. competitors for expansion of their agricultural sectors. The price support that U.S. policies provided worldwide encouraged competitors to expand production and exports. For example, Australia boosted its wheat production nearly 15 percent and exports by almost 40 percent between 1981 and 1985. Argentina increased its wheat production

by almost 60 percent and exports almost doubled. Canada's wheat production increased slightly (except for a dip in 1984/85 due to poor weather) while exports increased approximately 10 percent during the period. The European Community (EC) continued its high support prices and export subsidies. For example in 1985/86, as compared to the mid-1970's, EC wheat production was up 55 percent and the EC had changed from a net importer of wheat to a major exporter with 18 percent of world trade.

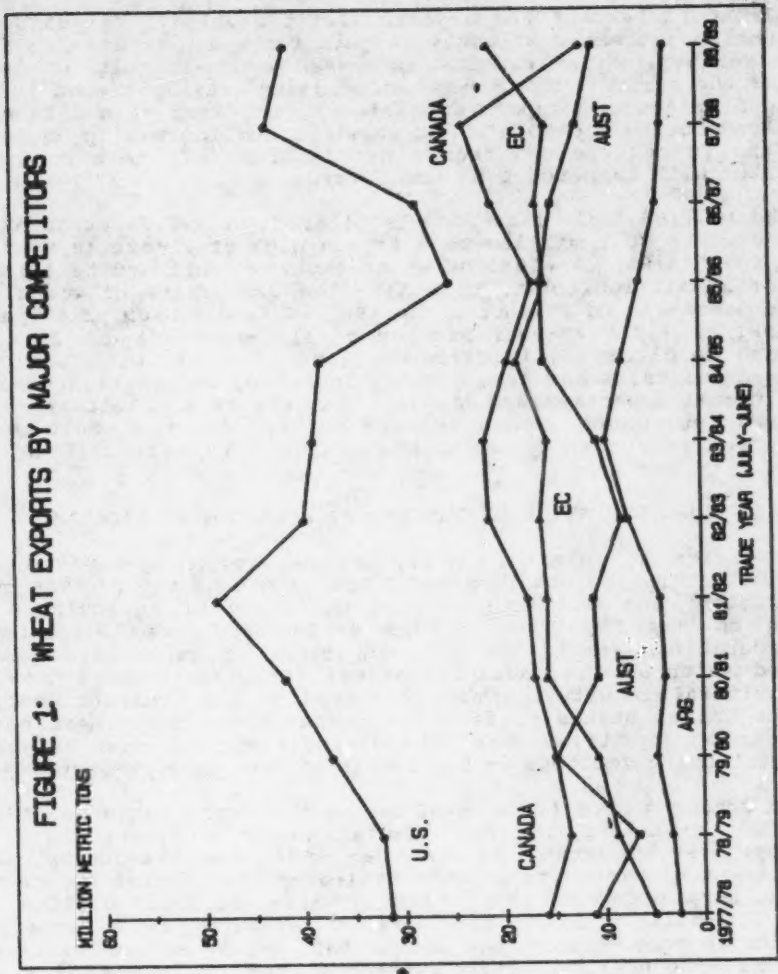
In the 1984/85 (July 1984-June 1985) trade year U.S. wheat exports were down to 38.1 million tons from a high of almost 48.8 million tons in 1981/82. In 1985/86 wheat exports continued to fall to a low of 25 million tons (Figure 1). The U.S. share of world wheat trade decreased to 29 percent in 1985/86 from a high of 48 percent in 1981/82 and a 25-year average of 41 percent (Figure 2). This decline resulted mainly from the loss of trade with centrally-planned countries and from greatly increased competition from both traditional exporters and the EC. Largely as a result of reduced exports, price and income support outlays for the wheat program went from less than \$1 billion in FY 1980 to \$4.7 billion in FY 1985.

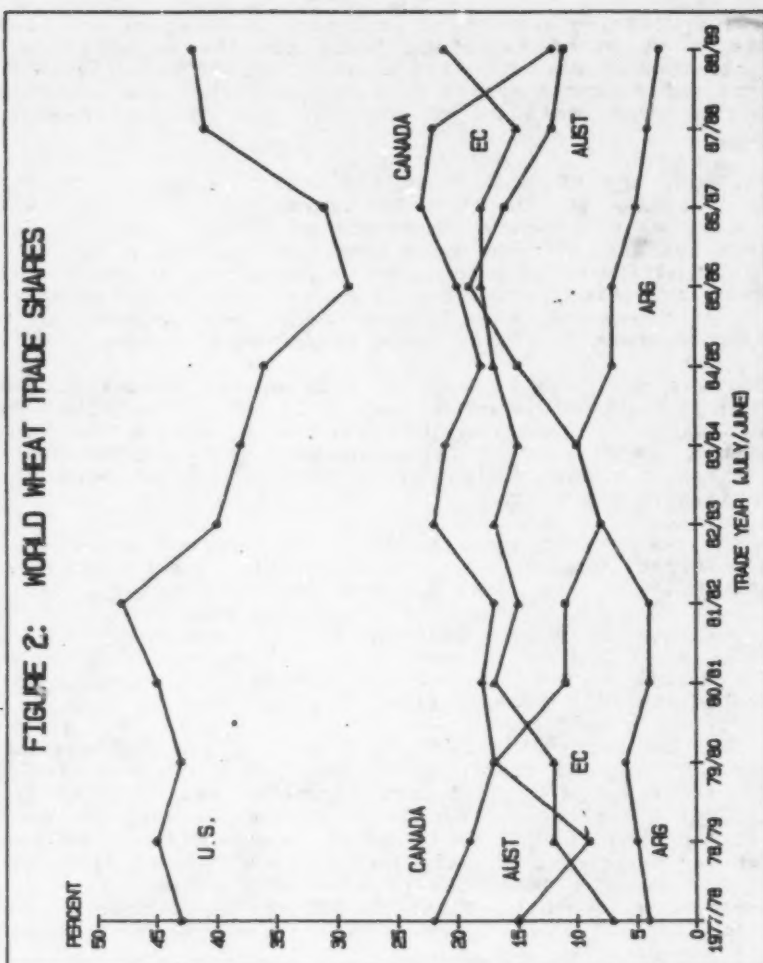
IMPLEMENTATION OF THE EXPORT ENHANCEMENT PROGRAM

The decision to implement the EEP emerged from an agreement between the administration and leaders of the Senate on the FY 1986 budget resolution, and was announced by Secretary of Agriculture John Block on May 15, 1985. This action reflected a number of considerations, among the most important of which were concerns shared within the administration, Congress, and the U.S. agricultural industry. These centered on the apparent inability of the United States to be price competitive in overseas markets where other countries were subsidizing their exports, as well as the continuing declines in the levels of U.S. farm product exports.

These concerns were heightened during the early months of 1985 by downward revisions in the official export projection for U.S. agricultural exports. In December 1984 when the United States Department of Agriculture (USDA) released its initial forecast for agricultural exports, the estimated value was \$36.5 billion, down from \$38 billion in FY 1984. This estimate was reduced by \$1 billion in both February and March 1985, and by May at the time the EEP was announced, a revised forecast for FY 1985 of \$33.5 was pending release.

Another factor in this decision was Congress' review of U.S. farm and export programs as part of the 1985 farm bill debate. While it was widely expected that changes would be adopted to improve the competitiveness of U.S. exports, it was also recognized that the benefit of these changes would be realized over an extended period of time. Many argued that more immediate action was necessary. In addition, one approach to improved competitiveness





which was receiving widespread attention in Congress and elsewhere was the adoption of marketing loans for the major crops. The administration opposed this approach and sought more flexible price supports and enhanced export promotion efforts as a better policy approach. Implementation of the EEP was consistent with this position.

In addition, the EC reaffirmed its unwillingness to subject the major programs of the Common Agricultural Policy (CAP) to negotiation at the General Agreement on Tariffs and Trade (GATT). In March 1985, EC Foreign Relations Commissioner Willy de Clercq asserted that the basic principles of the CAP, particularly the use of export subsidies, would remain non-negotiable in international trading arrangements, even though the EC was prepared to play a constructive role in the upcoming trade negotiations.

The EEP was designed to bolster U.S. export competitiveness by reducing the export price of selected U.S. commodities sold to targeted markets. This was to be achieved by giving U.S. exporters commodity certificates exchangeable for government-owned commodities, thereby enabling the exporters to match prices offered by subsidizing exporters.

While the EEP was an important step to increase exports, it was not the first program aimed at countering export subsidies of competitors. In fact, the EEP was patterned after a subsidized 1983 flour sale to Egypt. U.S. exporters sold 1 million tons of flour to Egypt at prices \$100 per ton or more below U.S. prices and received CCC wheat to make up the difference. This sale was a major thrust in U.S. attempts to aggressively compete with the EC for the Egyptian flour market.

In FY 1983 the export blended credit program was implemented which combined CCC export credit guarantees with interest-free direct export credit. The blended credit program was directed in large part at North African and Middle Eastern markets where the EC was subsidizing wheat and flour exports. However, the blended credit program was suspended in early 1985 after a Federal district court ruled that exports under the program were subject to U.S. cargo preference requirements. Thus, the EEP was implemented to continue these earlier efforts to expand exports and meet the subsidized competition of other exporters.

LEGISLATIVE AUTHORITY

The EEP was begun in 1985 under authority of the Commodity Credit Corporation (CCC) Charter Act of 1948, which provides the Secretary of Agriculture with broad authority to carry out programs which facilitate U.S. agricultural exports and develop overseas markets for U.S. agricultural commodities. The EEP was subsequently expanded by the Food Security Act of 1985, which set a minimum level of \$2 billion for the value of bonuses to be awarded under

the program. The Food Security Improvements Act of 1986 adjusted the authorized bonus level to not less than \$1 billion and not more than \$1.5 billion through FY 1988.

On July 30, 1987, the USDA announced that the EEP would continue under CCC Charter Act provisions after the \$1.5 billion maximum level for bonus awards had been achieved. The Omnibus Trade and Competitiveness Act of 1988 authorized an additional \$1 billion for EEP bonuses to be awarded through FY 1990. The Agriculture Appropriations Act for FY 1989 subsequently set a limit on EEP bonuses to be awarded of not more than \$770 million during FY 1989. The President's Budget had assumed a program level of \$900 million for FY 1989. By placing the limit on the program, budget savings were scored for the reduction by the Congressional Budget Committees to meet the terms of the budget resolution for that year.

OBJECTIVES

The EEP was implemented to achieve three primary objectives. The first was to boost U.S. agricultural exports. Concerns were voiced that the United States had become a supplier of last resort rather than of first choice. The use of CCC stocks as export bonuses were used to address that concern by restoring U.S. competitiveness and at the same time to reduce burgeoning government commodity surpluses. A second objective was to challenge unfair trade practices that hurt U.S. exports. The main target was the EC, with its export restitutions (per unit export subsidies) designed to enhance exportation of surpluses generated in response to high internal prices. In the mid-1970s, the EC began to shift from being a net importer of wheat to a significant rival in wheat trade. Third, the EEP was intended to encourage serious negotiations on agricultural trade under the auspices of the GATT. By countering EC restitutions with U.S. export subsidies, EC export subsidy costs would increase, and bring budget pressure on the CAP.

CRITERIA FOR EEP IMPLEMENTATION

At the time of program inception, the Economic Policy Council (EPC, consisting of representatives from the Departments of Agriculture, Commerce, State, Treasury, Office of Management and Budget, United States Trade Representative, and the Council of Economic Advisors) established four criteria under which the EEP would operate. The

four criteria published in the Federal Register¹ in June 1985, are: (1) additionality, (2) targeting, (3) cost effectiveness, and (4) budget neutrality.

Additionality

Additionality is defined as the increase in exports due to an export program. Specifically, the EPC agreed that "[a program's] sales must increase U.S. agricultural exports above what would have occurred in the absence of a program". Under this definition, if U.S. wheat exports increased 10 percent one year due solely to an export program, then that program's additionality is 10 percent.

Targeting

"Sales will be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports". The program has been primarily targeted against the EC. The targeting of markets requires identification of the country and commodity for which initiatives are to be offered. Generally, these are markets where the EC is present or where there is evidence of pending EC sales.

Efforts are made to avoid reducing sales by nonsubsidizing countries. In developing EEP proposals, estimates are made of nonsubsidizing and subsidizing countries' total sales volumes. Estimates are then made of what percentage and volume of the market is held by subsidizing competitors. Only the trade volume estimated for the subsidizing countries can be targeted by the EEP. Moreover, the targeted country agrees that its normal volume of imports from nonsubsidizing origins will not fall below a certain annual level.

Cost Effectiveness

Cost effectiveness means that "sales should result in a net plus to the overall economy" from the EEP. Costs of the EEP entail the CCC bonus commodities provided to exporters and higher consumer food expenditures if the EEP increases commodity prices. Benefits may include: reduced CCC storage costs from fewer stocks being held, lower deficiency payments as a result of price increases due to higher exports, lower paid land diversion payments, increased export revenues, higher farm income and a lower trade deficit.

Budget Neutrality

EEP "sales should not increase budget outlays beyond what would have occurred in the absence of the program". Since the EEP bonuses are awarded in the form of commodity certificates, there is no direct budget outlay. The certificates are based on commodities acquired by the CCC in previous time periods through price-support

¹ "Notices," Federal Register, Vol. 50, No. 108, June 5, 1985, pp. 23750-23751.

operations. The outlay for the commodity was made at the time the price-support loan was made to the producer. The producer had the option to pay off the loan at maturity or to forfeit the commodity under loan to the CCC. Once acquired by the CCC, storage and interest outlays are incurred. Using these CCC-owned commodity assets for carrying out the EEP does not have a direct effect on the budget outlays. It does, however, increase CCC realized losses from the disposition of CCC assets without corresponding sales receipts. These realized losses require the Congress to restore CCC's borrowing authority with the Treasury. However, doing so does not affect outlays or the budget deficit.

The key to whether the EEP affects outlays is the degree to which exports increase relative to the quantity of CCC stocks that are exchanged for commodity certificates and added to market supplies. An increase in free stocks, i.e. those stocks not owned by the CCC nor held by farmers in the farmer-owned reserve, generally reduces prices.

If additional exports fully absorb or exceed the CCC stocks that are added to free stocks, market prices increase because total supplies are reduced and outlays decline. If larger exports do not offset CCC stocks added to free stocks, prices may fall and increase deficiency payments and price-support lending by CCC.

PROGRAM OPERATION

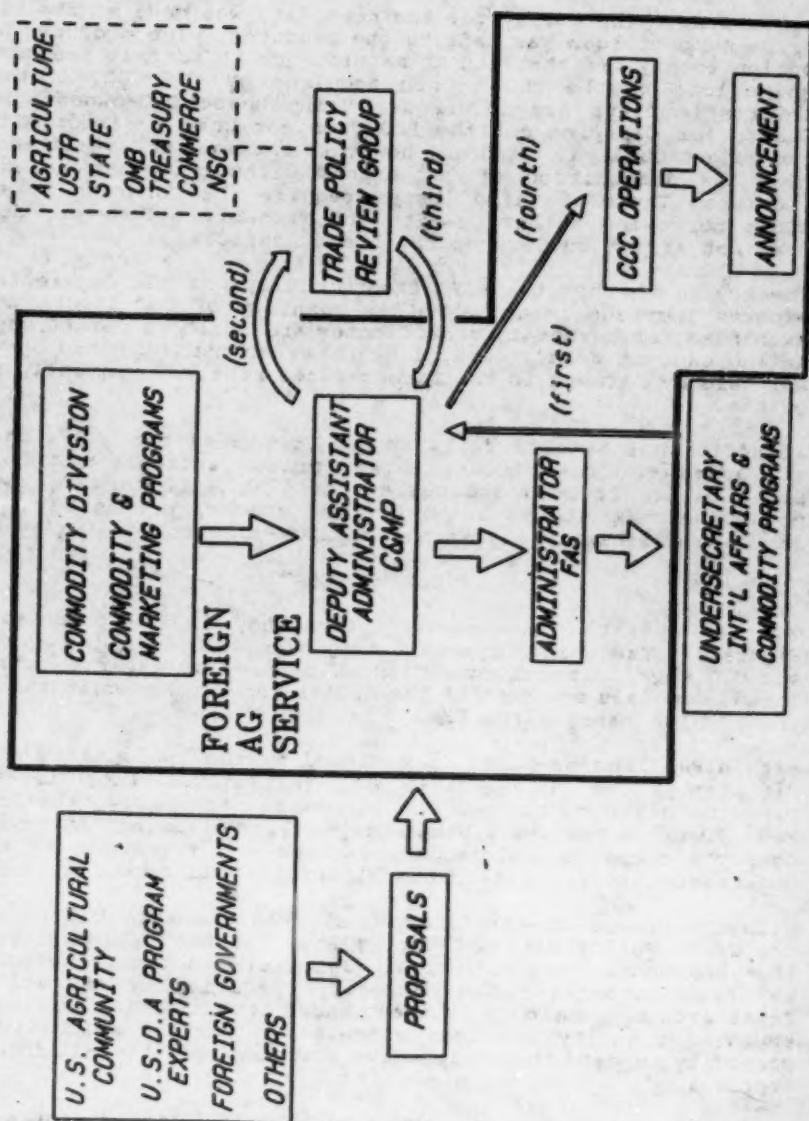
The EEP operates through an interagency review process. (See Figure 3.) Targeting proposals originate with foreign governments, the U.S. agricultural community, USDA program experts, or others. These proposals are sent to the USDA's Foreign Agricultural Service (FAS) which manages the EEP.

Within FAS, the proposal is reviewed by the appropriate commodity division. For a vegetable oil initiative, the Oilseeds and Products Division reviews the proposal. Similarly, the Grain and Feed Division reviews a wheat proposal. Following FAS review, the Agency's comments and recommendations are forwarded to the USDA Undersecretary for International Affairs and Commodity Programs.

With the Undersecretary's approval, FAS presents the proposal to the Trade Policy Review Group (TPRG). If the TPRG approves, USDA then announces the initiative. Importers in the targeted country may then tender for the commodity specified by the initiative. Importers may make purchases under the initiative until the approved quantity has been exhausted. Further purchases of the commodity under the initiative require additional interagency approval.

For purchases to be made, the foreign buyer (government agency or private firm) contacts exporters with sale specifications, such as wheat type and protein content. Exporters then bid on the tender.

Figure 3
OPERATIONAL DETAILS: PROPOSAL to ANNOUNCEMENT



The importer accepts price bids contingent on approval by FAS of the price and bonus levels. Bids are reviewed by FAS which compares offers against current U.S. and world market prices.

Prices and bonuses offered by U.S. exporters are approved on the basis of price and bonus ranges set by FAS. Minimum accepted prices for EEP sales are set to be consistent with world market prices and to be competitive with those of subsidizing suppliers. Bonuses are approved based on the difference between the U.S. domestic price plus ocean transportation and the competitor's delivered price. FAS may reject bids if the price is too low or the bonus is too high. Rejected bidders may bid again.

If the price and bonus are accepted, the sale is announced. All sales are completed by private exporters and bonuses are paid in commodity certificates after completion of the export. Exporters must show proof of export to receive the certificates. The certificates must be exchanged for commodities within six months of issuance. The exporter also has the option to sell the certificates to other private parties.

The commodity certificates awarded to an exporter permit the exporter to purchase a higher-priced U.S. product and export it at a price competitive with prices offered by subsidized exporters. As a result, the subsidy is passed along to the importer and U.S. producers gain because the exporter is able to sell more than would have otherwise been the case.

REVIEW OF EEP DEVELOPMENT

The first EEP initiative was announced by USDA on June 4, 1985, for one million tons of wheat to Algeria. The first tender, August 14, 1985, was for 150,000 tons of wheat to Egypt. To date (April 21, 1989), 102 initiatives have been announced targeting 65 countries and 12 commodities.

The targeted markets have been: Algeria, Bahrain, Bangladesh, Benin, Brazil, Burkina Faso, Burundi, Canary Islands (Spain), Cameroon, Central African Republic, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Cyprus, Dominican Republic, Egypt, El Salvador, Finland, Gabon, German Democratic Republic, Ghana, Guatemala, Guinea, Honduras, Hong Kong, Hungary, India, Indonesia, Iraq, Israel, Jordan, Kenya, Kuwait, Lebanon, Liberia, Mali, Mexico, Morocco, Niger, Nigeria, North Yemen, Oman, Peru, Philippines, Poland, Qatar, Romania, Saudi Arabia, Senegal, Sierra Leone, Singapore, Soviet Union, Sri Lanka, Switzerland, Togo, Tunisia, Turkey, United Arab Emirates, Venezuela, Yugoslavia, Zaire, Zanzibar (Tanzania).

The targeted commodities have been: barley, barley malt, dairy cattle, eggs, frozen poultry, poultry feed, rice, semolina, sorghum, vegetable oil, wheat, and wheat flour.

From program inception through April 21, 1989, the total value of EEP sales was slightly over \$8.1 billion, with the market value of the bonuses awarded amounting to just over \$2.5 billion. Figure 4 illustrates the sales value and market value of bonuses under the EEP by fiscal year. Table 1 shows the fiscal year quantity of sales by commodity. Both the figure and table show the growth of the EEP, with sales more than quadrupling since FY 1986.

Table 2 highlights the growing importance of the EEP for export of specific commodities. For example, over 60 percent of the total value of U.S. wheat and flour exports and almost 50 percent of barley sales were supported by the EEP in FY 1988. About 22 percent of all EEP sales are made in conjunction with CCC export credit guarantees under the GSM-102 and 103 programs, with the primary recipients of these price/credit packages being the North African and Middle Eastern markets.

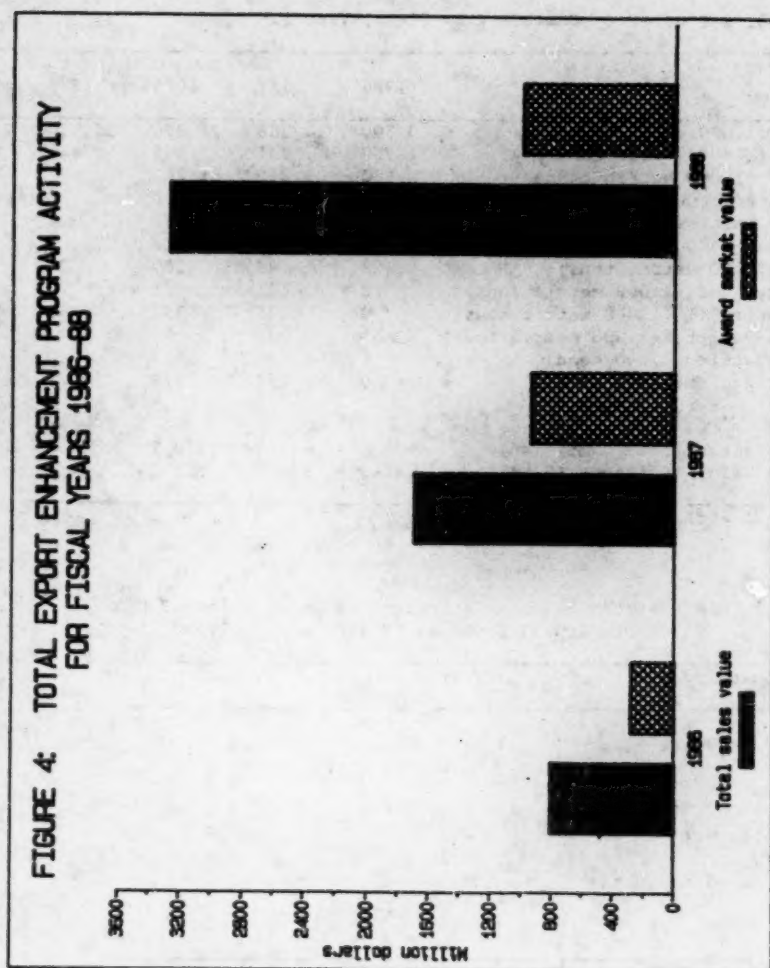


Table 1. EEP Sales By Commodity By Fiscal Year 1/

	1986	1987	1988	1989	Total
Wheat (1,000 metric tons)	5,300	14,388	26,296	14,150	60,134
Flour (1,000 metric tons g.e.)	1,200	901	442	144	2,687
Barley (1,000 metric tons)	900	3,359	1,701	472	6,432
Semolina (1,000 metric tons g.e.)	0	73	0	0	73
Barley Malt (1,000 metric tons g.e.)	6	135	72	4	217
Sorghum (1,000 metric tons)	0	106	213	0	319
Rice (1,000 metric tons)	23	28	120	20	191
Poultry Feed (1,000 metric tons)	0	111	78	0	189
Vegetable Oil (1,000 metric tons)	0	25	357	63	445
Frozen Poultry (1,000 metric tons)	43	95	13	2	153
Dairy Cattle (1,000 head)	6	52	12	0	70
Table Eggs (million pieces)	0	258	129	27	414
Total Sales Value (\$ million)	804.6	1,697.7	3,270.2	2,367.6	8,140.1
Market Value of Awards (\$ million)	286.9	933.2	992.2	304.7	2,517.1

1/ As of April 28, 1989.

Table 2. EEP-Assisted Sales as a Percent of Total Value of U.S. Agricultural Exports, FY 1987 and FY 1988

EEP Commodity	FY 1987	FY 1988
	(1)	
Wheat and Wheat Flour	47.0	63.7
Barley	94.0	47.9
Sorghum	0.8	3.0
Rice	1.1	5.0
Vegetable Oil	2.7	22.9
Poultry	30.1	8.3
Dairy Breeding Cattle	54.3	7.3
Total	6.8	9.2

CHAPTER 2. REVIEW AND ANALYSIS OF THE EEP FOR WHEAT

This chapter reviews the EEP for wheat and analyzes the additional exports generated by the program.

REVIEW

Targeting and Growth of EEP Sales

Since the inception of the EEP, 65 million tons of wheat have been offered to 44 countries. Almost all of the targeted countries have purchased wheat under EEP initiatives, resulting in wheat sales of approximately 60 million tons. The EEP has played an increasingly important role in U.S. wheat exports. EEP shipments increased from an estimated 12 percent of 1985/86 wheat export volume to almost 70 percent of U.S. wheat export volume in the 1987/88 marketing year (June-May), and over 60 percent in 1988/89.

1985/86: The First Initiatives. EEP sales grew slowly in the first full year of operation. Thirteen countries were targeted for 6.5 million tons of wheat (table 3) and ten of those purchased 3.5 million tons. (table 4). EEP shipments of wheat were 12 percent of total U.S. wheat exports.

The first four countries targeted were Algeria, Egypt, Morocco and Yemen. From June 1985 through May 1986, six EEP initiatives were announced for these North African and Middle Eastern countries (table 3). The EC had supplied over half of Algeria's commercial wheat imports in the 1984/85 trade year while the United States and Canada provided the rest. The EC was also a significant exporter to Morocco, although the United States held a larger share of that market (61 percent). Nevertheless, The United States had lost 0.5 million tons of wheat sales to the EC between 1983/84 and 1984/85. The EC had not exported wheat to Egypt and Yemen in 1984/85; Australia and the United States were the dominant suppliers. In the case of Egypt, the lack of EC sales activity was attributable to USDA's blended export credit program.

During 1985/86, U.S. exports and market share increased in only one of the four original EEP markets. In Algeria, the U.S. share more than doubled from 25 percent in 1984/85 to 56 percent in 1985/86. This increase in U.S. market share was at the expense of the EC. The U.S. share of the Egyptian market dropped slightly while the EC's share remained fairly constant. In Morocco, the United States also lost some market share to the EC.

During the first year, the United States also targeted Jordan, Turkey, Tunisia, the Philippines, Sri Lanka, Yugoslavia, Benin, and Zaire (table 3). The EC had played a major export role in the two sub-Saharan African markets and Tunisia in 1984/85, but was only a minor supplier to Turkey and Sri Lanka. The United

Table 3: Countries Targeted for Wheat Under the EEP, Marketing Years 1985 Through 1989

Marketing Year:	1985/86	1986/87	1987/88	1988/89	Totals
Country	Initiatives Quantity (MTs)	Initiatives Quantity (MTs)	Initiatives Quantity (MTs)	Initiatives Quantity (MTs)	Initiatives Quantity (MTs)
North Africa & the Middle East:					
Algeria	10 5,994,100	12 5,942,000	13 7,525,000	6 4,000,000	41 23,461,100
Egypt	2 2,000,000	2 600,000	3 1,600,000	1 1,000,000	8 5,200,000
Iraq	2 1,012,500	3 1,532,000	3 2,350,000	3 1,000,000	11 6,004,500
Israel	0 0	2 1,800,000	0 0	0 0	2 1,800,000
Jordan	0 0	1 200,000**	0 0	0 0	1 200,000
Libya	1 75,000	2 300,000	1 350,000	0 0	4 725,000
Morocco	0 0	0 0	1 150,000	0 0	1 150,000
Senegal	1 1,500,000	1 790,000	2 2,000,000	1 1,000,000	5 5,290,000
Sierra Leone	1 700,000**	0 0	0 0	0 0	1 700,000
Tunisia	1 1,000,000	1 800,000	1 725,000	0 0	3 1,825,000
Turkey	2 1,000,000	0 0	0 0	0 0	2 1,000,000
Yemen	1 100,000	1 100,000	2 200,000	0 0	4 400,000
Eastern Europe and the Soviet Union:					
Bulgaria	1 100,000	5 5,450,000	13 11,795,000	2 4,000,000	21 21,645,000
Czech	0 0	0 0	2 350,000	0 0	2 350,000
Poland	0 0	0 0	1 130,000	0 0	1 130,000
Romania	0 0	1 500,000	3 2,000,000	0 0	4 2,500,000
Soviet Union	1 200,000	2 700,000	1 500,000	0 0	4 1,400,000
Yugoslavia	0 0	1 4,000,000	6 8,815,000	2 4,000,000	9 16,815,000
China	0 0	1 1,000,000	5 6,200,000	4 6,000,000	10 13,200,000
Asia:					
Bangladesh	2 275,000	3 695,000	6 2,646,000	5 3,050,000	16 6,466,000
India	0 0	1 100,000	3 500,000	1 300,000	5 900,000
Philippines	0 0	0 0	1 1,200,000	2 1,800,000	3 3,000,000
Sri Lanka	1 150,000	1 500,000	1 500,000	1 1,000,000	4 1,850,000
Thailand	1 125,000	1 95,000	1 240,000	1 250,000	4 710,000
Sub-Saharan Africa:					
Benin	3 110,000	5 1,095,000	6 585,000	0 0	14 1,790,000
Burundi	1 30,000	0 0	0 0	0 0	1 30,000
Kenya	0 0	0 0	1 10,000	0 0	1 10,000
Senegal	0 0	1 500,000	0 0	0 0	1 500,000
West African countries	0 0	2 210,000	0 0	0 0	2 210,000
Zaire	2 80,000	1 345,000	2 235,000	0 0	5 580,000
Latin America					
Brazil	0 0	0 0	4 1,400,000	2 600,000	6 2,000,000
Colombia	0 0	0 0	1 300,000	0 0	1 300,000
Mexico	0 0	0 0	2 800,000	2 600,000	4 1,400,000

Table 3: Countries Targeted for Wheat Under the EEP Marketing Years 1965 Through 1969

Reg. Year: Country	1965/66		1966/67		1967/68		1968/69		Totals Initiative Quantity	
	Initiatives	Quantity	Initiatives	Quantity	Initiatives	Quantity	Initiatives	Quantity		
W. Europe	0	0	1	100,000	3	250,000	0	0	4	350,000
Finland	0	0	1	100,000	0	0	0	0	1	100,000
Canary Isles	0	0	0	0	3	250,000	0	0	3	250,000
Totals:	16	6,479,100	27	14,282,000	50	30,195,000	19	17,650,000	12	68,794,100

* 1968/69 marketing year is as of March 31, 1969.
as withdrawn.

Table 4: Wheat Sales Under EEP And Average Bonuses By Marketing Year

COUNTRY	1985/86			1986/87			1987/88			1988/89 (31/89)			TOTAL		
	SALES (MTs)	AVERAGE BONUS (\$/MT)		SALES (MTs)	AVERAGE BONUS (\$/MT)		SALES (MTs)	AVERAGE BONUS (\$/MT)		SALES (MTs)	AVERAGE BONUS (\$/MT)		SALES (MTs)	AVERAGE BONUS (\$/MT)	
NORTH AFRICA AND THE MIDDLE EAST:															
ALGERIA	3,269,100	27.65		5,138,000	33.38		6,820,000	34.21		4,614,750	19.17		19,841,850	29.94	
EGYPT	1,000,000	34.18		890,000	44.05		2,151,000	35.34		1,159,000	19.18		5,200,000	33.99	
IRAN	897,300	22.59		1,435,000	32.02		1,435,000	33.47		1,765,750	28.57		5,785,250	27.89	
JORDAN	75,000	28.23		450,000	23.88		782,000	28.08		715,000	14.48		1,937,000	22.18	
MOROCCO	890,000	25.5		300,000	41.99		1,500,000	37.1		140,000	19.37		3,515,000	29.70	
TUNISIA	50,000	26.91		1,200,000	41.99		1,350,000	37.1		730,000	42.16		4,170,000	34.91	
TURKEY	504,600	26.18		550,000	24.32		475,000	34.64		50,000	10.45		1,075,000	29.89	
YEMEN	50,000	20.93		75,000	40.18		175,000	24.23		75,000	16.45		375,000	22.63	
EASTERN EUROPE AND THE SOVIET UNION:															
BULGARIA	20,000	33.81		5,093,050	40.69		10,433,800	33.19		4,000,000	22.71		19,746,850	32.84	
POLAND	0	0		0	0		150,000	37.48		0	0		150,000	37.48	
ROMANIA	0	0		500,000	41.38		1,475,000	39.79		0	0		1,975,000	40.19	
YUGOSLAVIA	20,000	33.81		992,050	29.37		204,000	32.48		0	0		1,817,050	30.31	
USSR	0	0		4,000,000	41.52		8,804,800	32.81		4,000,000	22.71		16,804,800	32.06	
CHINA	0	0		1,000,000	43.98		4,940,000	37.92		6,050,000	19.84		11,990,000	28.49	
ASIA:	152,400	22.05		210,000	35.74		2,289,500	25.8		2,523,500	14.27		5,176,900	20.47	
BAHAGLASH	0	0		0	0		294,500	29.96		468,000	18.43		762,500	23.01	
INDONESIA	0	0		0	0		1,000,000	24.48		1,000,000	18.08		2,000,000	21.28	
PHILIPPINES	152,400	22.05		0	0		845,000	24.38		855,000	8.01		1,852,400	16.43	
THAILAND	0	0		210,000	35.74		150,000	34.5		200,000	11.73		560,000	26.83	
SUB-SAHARAN AFRICA:	20,000	23.25		302,500	38.24		222,400	33.75		224,550	21.78		769,450	31.80	
SENEGAL	0	0		30,000	27		0	0		0	0		30,000	27	
WEST AFRICAN COUNTRIES	0	0		100,000	44.48		0	0		0	0		100,000	44.48	
ZAMBIA	0	0		79,500	40.34		128,400	34.73		158,650	24.63		366,750	31.58	
ZAMBIA	20,000	25.25		93,000	31.21		94,000	32.41		65,900	14.90		278,900	27.25	
LATIN AMERICA:	0	0		0	0		526,000	31.67		1,187,075	21.65		1,713,075	24.73	
BRAZIL	0	0		0	0		66,000	24.27		0	0		66,000	24.27	
COLOMBIA	0	0		0	0		240,000	30.52		195,000	14.07		435,000	23.77	
MEXICO	0	0		0	0		200,000	35.42		992,075	23.14		1,192,075	23.23	

Table 4: Wheat Sales Under ERP and Average Bonuses By Marketing Year

COUNTRY	1985/86			1986/87			1987/88			1988/89 (31/89)			TOTAL		
	SALES (M ³)	AVERAGE BONUS (\$/MT)		SALES (M ³)	AVERAGE BONUS (\$/MT)		SALES (M ³)	AVERAGE BONUS (\$/MT)		SALES (M ³)	AVERAGE BONUS (\$/MT)		SALES (M ³)	AVERAGE BONUS (\$/MT)	
WESTERN EUROPE:	0	0	0	0	0	0	89,800	31.96		79,500	6.45		169,300	20.92	
CANARY ISLANDS	0	0	0	0	0	0	7,500	33.4		8,000	15.06		15,500	23.91	
FINLAND	0	0	0	0	0	0	82,500	31.82		63,500	6.46		146,000	20.77	
WORLD TOTAL	3,461,500	27.43		11,743,550	37.41		25,321,700	33.68		18,678,875	19.63		99,495,625	29.43	

States and Australia were the major wheat suppliers to the Philippines, Turkey, Sri Lanka, and Jordan. These countries were targeted to forestall expected EC sales.

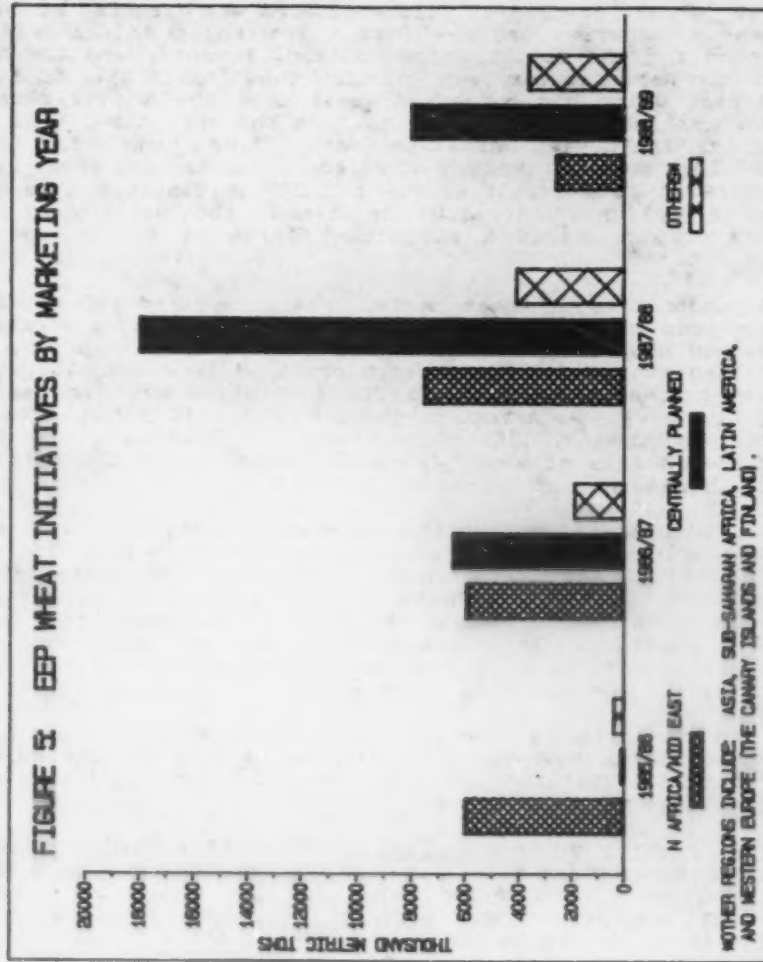
In the case of Jordan, a dramatic improvement in production allowed blending of EC-type wheat in 1985/86. Poor quality production had in the past relegated Jordan to importing higher quality or harder wheats from sources other than the EC. A policy change in the Philippines transferred import authority from the government to the private sector. Combined with other internal economic conditions, the Philippines began making import decisions based primarily on price. In Sri Lanka, reductions in PL-480 allocations increased the country's commercial wheat imports dramatically. Without the presence of a U.S. program, the EC was expected to capture these new commercial sales due to an abundance of cheap subsidized wheat. In Turkey it was anticipated that the EC would become a major supplier due to decreases in Soviet demand, proximity of the country, and type of wheat required.

Decreases in 1985/86 U.S. wheat exports to many of the above countries were due, in part, to lags between the announced EEP initiatives, accepted bids, and actual exports. For example, the United States lost market share to the EC in EEP markets such as Tunisia and Turkey, although it modestly increased its share of the Zaire wheat market at the expense of the EC.

During 1985/86, U.S. wheat exports fell from 38 million tons to 25 million tons due, in large part to the decline in U.S. exports to the Soviet Union and China whose total imports fell sharply. Chinese imports of U.S. wheat fell from 2.4 million tons in 1984/85 to 581,000 tons. U.S. exports to the Soviet Union dropped from 6.1 million tons to 153,000 tons in 1985/86. In 1985/86 as the United States matched EC subsidies in North African markets, the EC increased its share of the Soviet and Chinese markets.

The United States lost export volume and market share in the Soviet Union and China and other non-EEP markets such as Brazil, Indonesia and Korea. The United States slightly increased export volume and market share in several others such as Taiwan and Pakistan. The U.S. share of the world market declined from 36 percent in 1984/85 to 29 percent, while the EC, Australia and Canada increased their shares (Figure 2).

1986/87: Expansion to Eastern Europe, the Soviet Union and China. U.S. wheat exports rose slightly in 1986/87 to 28.4 million tons and the U.S. world market share climbed from 29 percent to 32 percent (Figure 2). Wheat exports under the EEP increased to 6.2 million tons, or 25 percent of total U.S. wheat exports. The number of countries targeted under the EEP doubled in the 1986/87 wheat marketing year. The EEP was extended to include the Soviet Union and China and as well as additional Middle Eastern, African, and Eastern European countries (Figure 5).



Over 40 percent of 1986/87 volume offered was directed to Eastern European countries and the USSR. New wheat initiatives were announced for the Soviet Union, Poland, Romania, and the German Democratic Republic for 5.45 million tons (table 3). In 1985/86 the Soviet Union had purchased wheat from the EC (32 percent), Canada, Australia, and Argentina. At the same time, U.S. wheat exports to the Soviet Union were only 153,000 tons. The EC also had provided about 60 percent of Poland's substantial wheat imports in 1985/86. As a result of the new EEP initiatives, the United States very slightly increased its share of the Soviet wheat market in 1986/87 and gained a 25 percent share of the Polish wheat market.

China, another major wheat market, was authorized EEP sales of 1 million tons in January 1987. In the previous year, Australia and Canada had supplied the majority of China's wheat imports, while the United States and the EC each provided less than 10 percent. China's purchases of the full EEP initiative were not exported until July 1987. As a result, the U.S. share of the Chinese wheat imports declined a little in 1986/87. Australia and Canada maintained shares of about 40 percent each, while the EC's share of the Chinese market increased slightly.

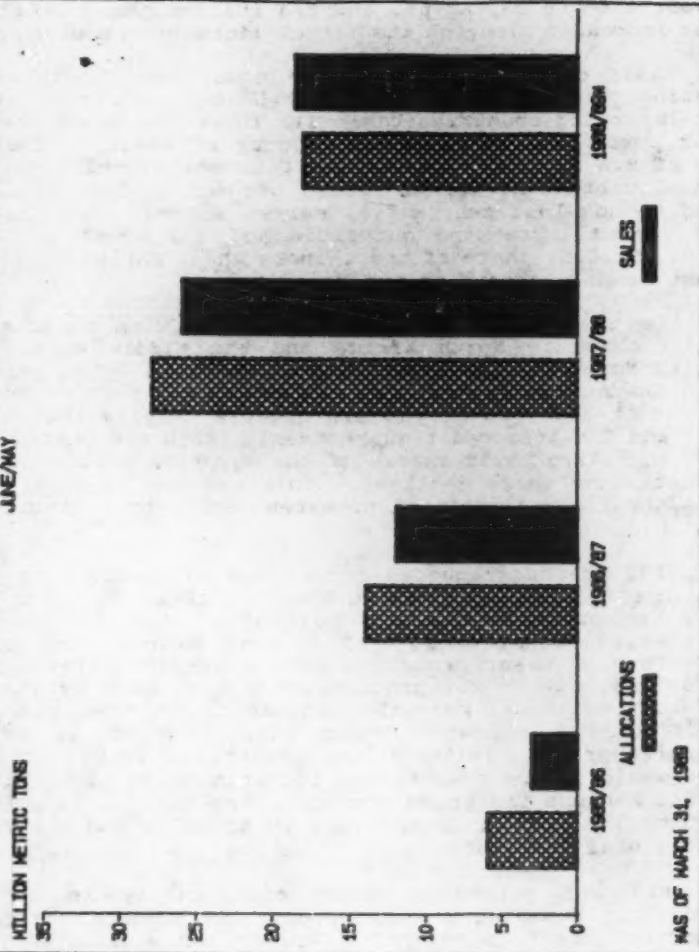
The United States continued to announce new wheat allocations to the four original countries of Algeria, Morocco, Egypt, and Yemen. And the United States continued to increase its share of these markets. In 1986/87, the United States captured 71 percent of the Algerian wheat market, while the EC share decreased to 9 percent from 20 percent. With the help of the EEP and the GSM-103 intermediate-term credit guarantee program, the United States edged the EC out of the Moroccan wheat market.

U.S. exports to most of the EEP countries increased in the 1986/87 marketing year. However, U.S. exports to some non-EEP countries such as Brazil continued to fall. The EC moved aggressively into the Brazilian wheat market in 1986/87.

1987/88: Further Program Expansion. The EEP expanded rapidly in the 1987/88 marketing year (Figure 6). Approximately 28.8 million tons of wheat were exported under the EEP, almost 70 percent of U.S. wheat exports. Total U.S. wheat exports increased to 41.6 million tons, as the United States expanded its wheat shipments to both EEP countries and non-EEP countries.

In 1987/88 the U.S. share of the world wheat market slightly exceeded its historical average of 41 percent, at the expense of the EC and other competitors (Figure 2). Despite increased restitution levels, EC market share declined to 15 percent from 19 percent. The Australian share also dropped several percentage points, related to reduced exportable supplies and to large losses

FIGURE 6: EEP WHEAT. ALLOCATIONS AND SALES BY MARKETING YEAR



in exports to China, Egypt, and the Philippines. Canada's export volume increased although its market share decreased very slightly.

Nearly half of the volume offered under the EEP in the 1987/88 marketing year went to the Soviet Union and China, the largest wheat-importing countries (table 3). These two countries accounted for 32 percent of total world imports of wheat in 1987/88. EEP sales of 8.8 million tons boosted U.S. market share to 67 percent of the Soviet wheat market from 3 percent in 1986/87, while the EC and Canada lost substantial market shares. The United States also offered increasing quantities of EEP wheat to China. In 1987/88 the U.S. share of the Chinese wheat market increased to 31 percent from 3 percent in the prior year.

The United States continued its competition with the EC to maintain market share in North Africa and the Middle East. Sales to Algeria, Morocco, Egypt and Yemen increased by 20 percent. The United States continued to be the major exporter to Morocco, but lost market share to the EC in Algeria despite the availability of EEP and GSM-102 credit guarantees. Both the United States and the EC increased their shares of the Egyptian wheat market, while the Australian share declined. This was due in part to the fact that Australia was reticent to extend additional export credit to Egypt.

The United States announced first-time initiatives to Mexico and India in 1987/88 to preclude further EC sales. Although the United States had provided about 15 percent of Mexico's wheat imports (about 96,000 tons) in 1986/87 without bonuses, the EC had sold 21,000 tons of wheat, entering into a traditionally U.S. market. For 1987/88, due to low production of high quality wheat, Mexico was forced to import more than it had in previous years. The EC was offering a somewhat lower quality wheat at particularly aggressive prices. Without an EEP, it was felt that the United States would not be competitive in the Mexican market in 1987/88. This was because the price structure for Mexican imports had been set quite low earlier in the year by EC sales and the expectation of additional EC trade.

India had not purchased wheat commercially in 1986/87. A particularly damaging monsoon season was expected to force India to purchase wheat in 1987/88. The EC had already sold flour to India and it was felt that they would capture a large part of the 3-5 million ton Indian import market for wheat without an EEP.

1988/89: The Current Picture. Following the 1988 drought which led to declining U.S. and world wheat supplies, activity under the EEP has declined as U.S. and world prices have risen and price differentials have narrowed. The United States has not offered EEP wheat to previously ineligible countries or greatly expanded the volume of wheat offered under EEP initiatives in the 1988/89 marketing year. Total initiatives in the first eight months of the

1988/89 marketing year are 25 percent below the prior year. The United States has continued to target wheat under the EEP to several countries including the original markets in North Africa, the Soviet Union, and China.

Bonus Values

EEP bonuses have provided significant price subsidies to help U.S. exporters compete with subsidized competitors. The average bonus has been about 25 percent of the U.S. f.o.b. wheat price at Gulf ports. Table 5 shows the ratio of bonus to export price since 1985. The ratio has ranged from a high of 40 percent in December 1986 to a low of 9 percent in July and November 1988. Overall, about \$1.8 billion in commodity certificates have been awarded for EEP wheat sales.

The size and range of EEP bonuses over time are generally affected by the differential between U.S. and EC export prices, which in turn is affected by U.S. and EC policy changes, macroeconomic factors, and exportable supplies available on world markets. Through March 1989, the average monthly EEP bonus has ranged from a high of \$45.27 per ton in October 1985 to a low of \$14.11 per ton in November 1988 (table 5).

The large variation in bonuses over time is shown to generally correspond to variation in the differential between U.S. and EC prices in Figure 8. Lowering the price-support loan rate after implementation of the Food Security Act of 1985 and the dollar depreciation since February 1985 improved the competitiveness of U.S. wheat exports and reduced the need for high bonuses. However, the EC has countered the EEP with increased export subsidies as it attempted to hold markets. For example, EC export restitutions increased from about \$101 per ton in July 1986 to \$164 per ton in October 1986. The average EEP bonus grew from \$25 per ton to \$41 per ton during the same period. Since the spring of 1988, the drought affecting the United States and Canada has contributed to a decrease in world wheat supplies and a subsequent increase in world wheat prices. This has resulted in a reduction in both the restitutions needed to export EC wheat and the size of EEP bonuses.

Unlike a uniform subsidy provided to all exports, the EEP has been targeted by country. Thus, bonuses vary by country. In general, bonuses have been higher for the more contested markets and lower in those where the EC has been less competitive. From time to time, the EC offers special restitutions to specific markets above and beyond the restitutions it provides for all its wheat exports. For example, the Soviet Union, certain North African countries, and Poland are among countries that have received EC special restitutions in specific periods. Table 4 shows that some of the highest EEP bonuses were awarded for exports to the Soviet Union, specific North African markets, and Poland in certain years. Bonuses to countries in which the United States has a freight advantage, such as the Philippines, have been lower. Relatively

TABLE 5. U.S. WHEAT EXPORT PRICES AND EEP BOUNSES

MARKETING YEAR	US EXPORT		BONUS AS	
	PRICE (FOB GULF)	EEP BONUS*	OF EXPORT PRICE	
		\$/TON		%
1985/86	JUNE	134	n.a.	n.a.
	JULY	130	n.a.	n.a.
	AUGUST	125	n.a.	n.a.
	SEPT	128	22.15	17.3
	OCT	129	45.27	35.1
	NOV	135	38.32	28.4
	DEC	139	24.05	17.3
	JAN	133	23.79	17.9
	FEB	131	17.69	13.5
	MARCH	136	23.83	17.5
	APR	128	26.22	19.0
	MAY	128	41.21	32.2
AVG: 9/85-5/86		133	27.43	20.6
1986/87	JUNE	107	20.12	18.8
	JULY	103	24.98	24.2
	AUGUST	104	17.35	16.7
	SEPT	104	29.17	28.0
	OCT	105	40.51	38.6
	NOV	107	41.38	38.7
	DEC	109	43.60	40.0
	JAN	110	41.93	38.1
	FEB	114	34.46	30.2
	MARCH	116	37.46	32.3
	APR	115	35.37	30.8
	MAY	121	41.30	34.1
AVG 86/87		110	37.41	34.1
1987/88	JUNE	110	30.45	27.7
	JULY	106	28.90	27.3
	AUGUST	108	34.30	31.8
	SEPT	114	38.04	33.4
	OCT	116	37.62	32.4
	NOV	116	33.53	28.9
	DEC	126	40.35	32.0
	JAN	130	41.01	31.5
	FEB	132	34.39	26.1
	MARCH	126	25.73	20.4
	APR	128	24.39	19.1
	MAY	130	20.42	15.7
AVG 87/88		120	33.6	28.0

TABLE 5 CONTINUED

MARKETING YEAR		US EXPORT PRICE (FOB GULF) \$/TON	EEP BONUS*	BONUS AS % OF EXPORT PRICE %
1988/89	JUNE	151	30.94	20.5
	JULY	151	13.84	9.2
	AUGUST	151	19.09	12.6
	SEPT	160	19.85	12.4
	OCT	162	20.29	12.5
	NOV	165	14.11	8.6
	DEC	167	19.76	11.8
	JAN	175	21.55	12.3
	FEB	173	18.86	10.9
	MAR	179	19.19	10.7
	AVG 88/89 TO DATE	163	19.63	12.0

* EEP BONUS IS WEIGHTED BY VOLUME OF INDIVIDUAL SALES.

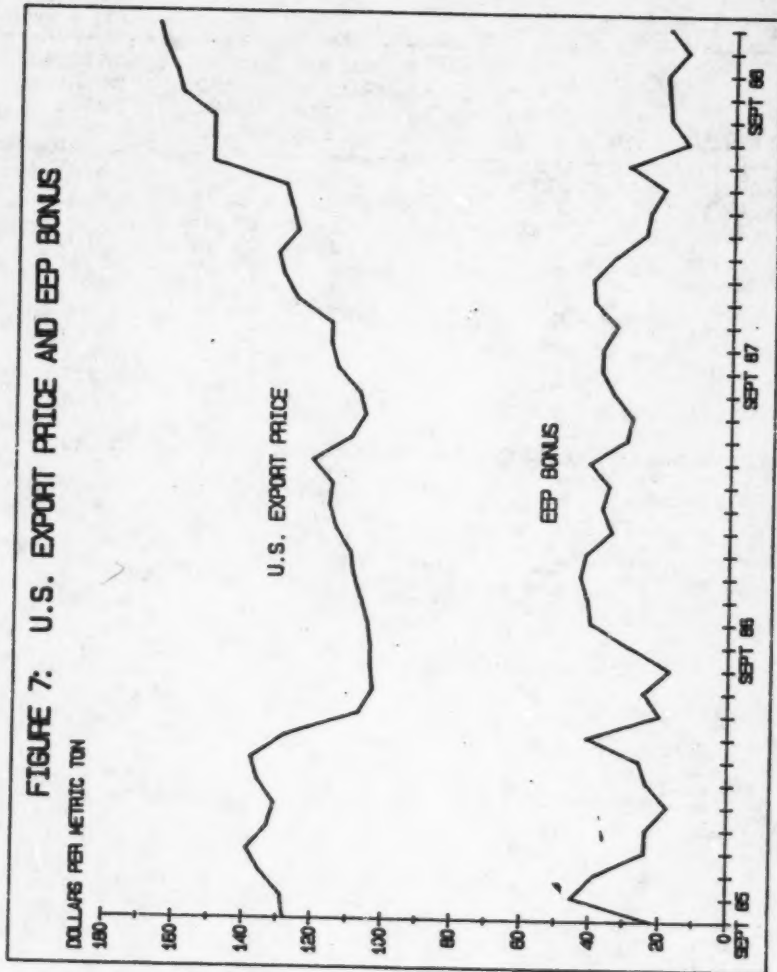
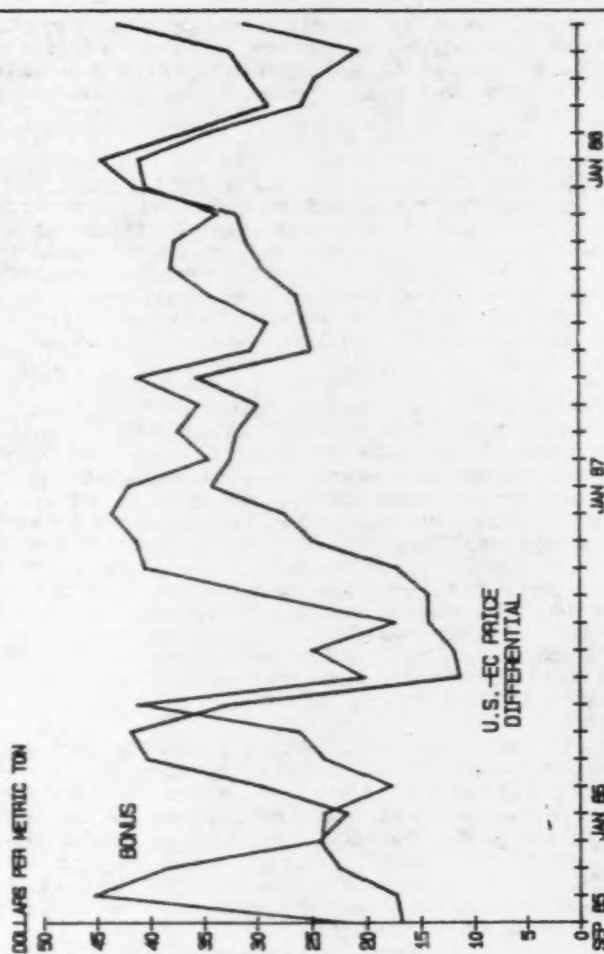


FIGURE 8: U.S.-EC PRICE DIFFERENTIAL AND EEP BONUS*



*U.S.-EC price differential reflects trend more than absolute difference since U.S. f.o.b. IFM price was compared to EC c.i.f. soft wheat price.

high U.S. freight rates to specific markets may require higher bonuses to match subsidizing exporters' prices. On the other hand, less of a bonus is needed if an importer places a premium on U.S. wheat than if the importer easily substitutes wheat from one source for that of another.

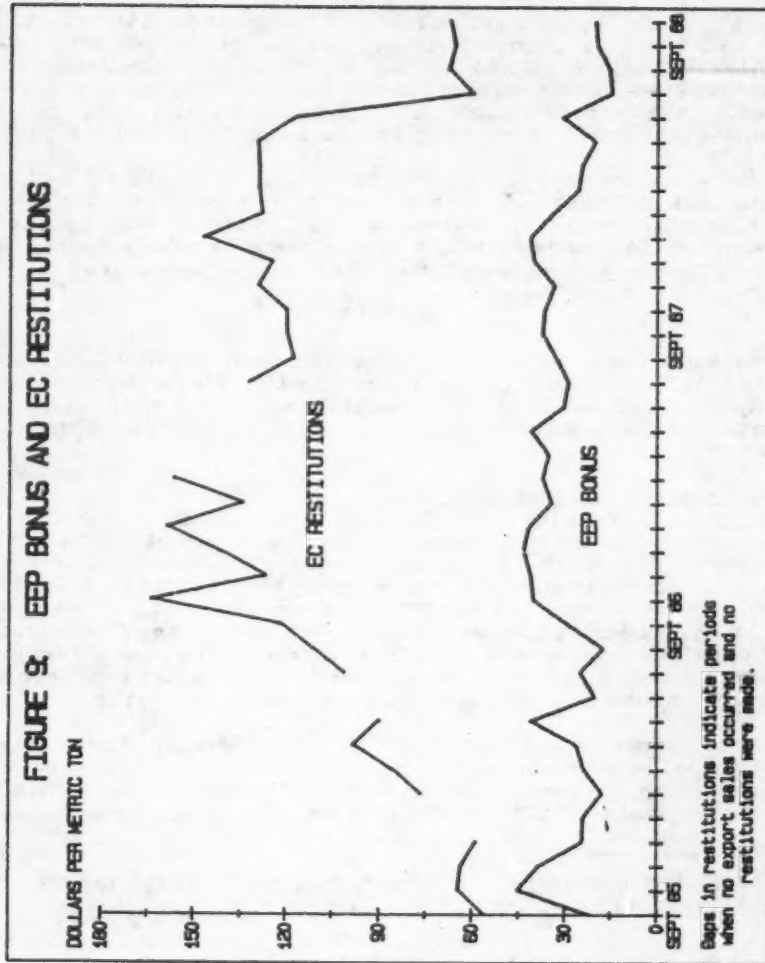
Competitor Response and Effects

World Market Shares, Export Revenues, and EC Export Restitutions. The EEP has been one factor affecting U.S. and competitors' shares of world wheat trade. A forthcoming ERS study shows the EEP responsible for an increase in the U.S. share of world wheat trade of 1 to 7 percent in 1986/87.² The EC's share remained about 19 percent in 1985/86 and 1986/87, but then declined to 15 percent in 1987/88. In 1988/89, the EC's market share increased to about 20 percent due mainly to a decline in world export supplies, especially in Canada.

As discussed and shown in Figure 2, other exporters' shares of world wheat trade have also changed since 1985. Both Argentina and Australia experienced reduced wheat acreage and loss of market share from 1985. The main cause was lower wheat production in response to lower world wheat prices and more lucrative production opportunities for other crops created by increases in world demand. Australian acreage declined due to very high beef and wool prices coupled with low world wheat prices. In Argentina, wheat area harvested also fell one year due to flooding and the next due to drought. Canada increased its share of the world market from 1985/86 through 1987/88 mainly by lowering export prices. It supported producers with high government payments under the Western Grain Stabilization Program and deficiency payments under the Special Canadian Grains Program.

After enactment of the 1985 Food Security Act, EC export restitutions for wheat grew from \$365 million in 1985 to an estimated \$1.8 billion in 1988. In order to compete with EEP bonuses, lower price-support loan rates, and depreciation of the U.S. dollar relative to the ECU, the EC had to lower its export prices with larger per unit restitutions. Figure 9 shows this pattern of increased EC restitutions during 1985-87. For 1988, the rise in world wheat prices has allowed the EC to reduce the level of its subsidies. Other factors in addition to the EEP also played a role in the increase in average export restitutions paid by the EC since EEP inception.

² Haley, Stephen L. An Evaluation of Export Enhancement, Dollar Depreciation, and Loan Rate Reduction for Wheat for the 1986/87 Crop Year. U.S. Dept. of Agr., Econ. Res. Serv., forthcoming.



A recent study by an ERS economist suggests that about 35-40 percent of the EC's budget increase can be attributable to the EEP, while lower loan rates and dollar depreciation accounted for most of the remainder.³ Hillberg found that when accounting for the increase in EC restitutions attributable to the EEP, EC export revenues declined by 5 percent in the second quarter of 1987.

Hillberg also found that in the first two quarters of EEP sales, the U.S. export price increased less than 1 percent, while in the second quarter of 1987, prices rose 1-2 percent due to the EEP.³ However, the resulting rise in U.S. export revenues approximately equalled the market value of the EEP bonus commodities.

ANALYSIS

This section first examines the economics of global and targeted export subsidies. Drawing upon the economics of a targeted export subsidy, the factors affecting additionality are discussed. Then, estimates of the additional wheat exports generated by the EEP are presented.

The Economics of Export Subsidies

Global Export Subsidy. To analyze the economic impacts of a global (across-the-board) export subsidy, a neoclassical partial equilibrium framework is employed which allows examination of the trade of a homogeneous good. This analytical framework explicitly recognizes consumer, producer, and taxpayer interests, while holding all other prices and income constant. The three diagrams in Figure 10 show supply and demand schedules in the exporting country (a relatively low-cost producer), importing country (a relatively high-cost producer) and on the world market.

A global export subsidy drives a wedge between the exporter's domestic price and the world market price which is seen by the importer as an outward shift in the excess supply curve from ES to ES'. In the case of a "large" exporter able to influence the terms

³ Bailey, Kenneth. "What Explains Wheat Export Rise?" Agricultural Outlook, July, 1988. pp. 22-25.

⁴ Hillberg, Ann Marie. "The United States' Export Enhancement Program for Wheat: A Simulation Model Employing Nash's Bargaining Solution." Doctoral dissertation. Purdue Univ. May, 1988, and updates.

⁵ Hillberg, Ann Marie.

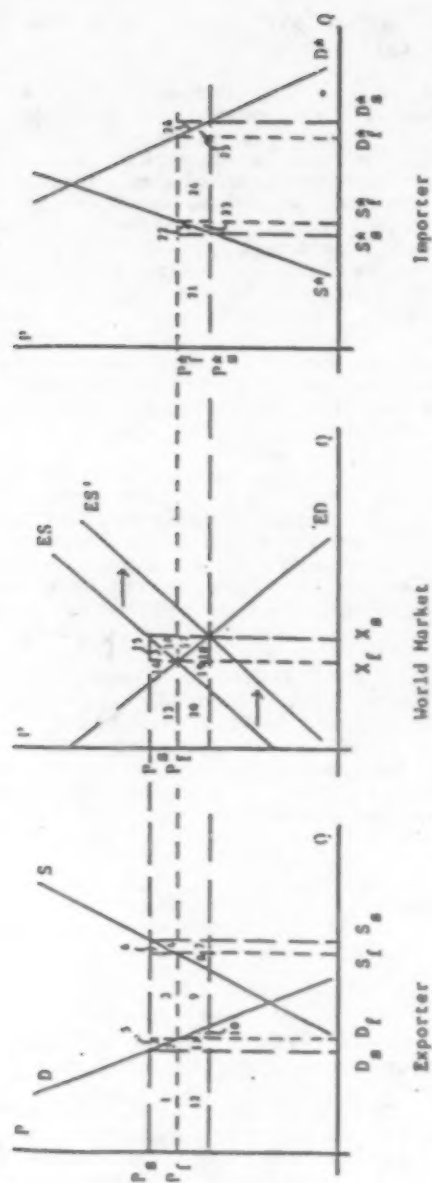


Figure 10

of trade, the domestic price level rises from P_f to P_s , and the importer's price level falls from P_f^* to P_s^* .

The increased domestic prices and larger volume of exports are beneficial to the subsidizing country's producers using the producer surplus measure of welfare (Areas 1,2,3,5,6). Consumer surplus is decreased by the rise in domestic prices (Areas 1,2). Taxpayers absorb the costs of the cash export subsidy (Areas 2-11), a portion of which is redistributed to domestic producers and a portion of which is transferred to consumers in the importing country (Areas 7-11). In contrast, producers in the importing country suffer a loss of welfare as their price falls (Areas 21-25) or alternatively taxpayers in the importing country incur this loss if producer subsidies are increased to offset the price reductions. How a global export subsidy affects individual groups depends on the extent of change in the individual countries' price levels and its effect on the volume of trade, as well as government policies. These are determined by the elasticities of supply and demand and the shares of domestic supply and demand traded by the two countries.⁶

Assuming equal weighting of consumer, producer, and taxpayer interests, the sum of these effects shows a decline in the economic welfare of the subsidizing exporter and an increase in the economic welfare of the importing country. In turn, the sum of these international impacts determines the inefficient allocation of resources resulting from the cash global exports subsidy to be welfare-decreasing to the world as a whole (Areas 16, 17).

Targeted Export Subsidies. Unlike a global export subsidy, neoclassical theory finds that targeted export assistance may increase economic welfare in the subsidizing country. In a general equilibrium analysis, Abbott, Paarlberg, and Sharples show welfare gains to the subsidizing exporter at low levels of a cash subsidy through discriminatory pricing: "If the targeted country is relatively price and income sensitive, then the exporting country can potentially increase its welfare because the country can adopt a small discriminatory subsidy to exploit differences in substitution and income effects . . . [This is] analogous to a price discriminating monopolist exploiting differences in [separate markets'] demand elasticities to increase profits".⁷

⁶ Elasticity is the percent change in quantity demanded (supplied) in response to a 1 percent change in price. The concept reflects the price responsiveness of the purchaser (seller).

⁷ Abbot, Philip C., Philip L. Paarlberg, and Jerry A. Sharples, "Targeted Agricultural Export Subsidies and Social Welfare," IATRC Working Paper #86-4, April 1986, and in American Journal of Agricultural Economics, Vol. 69, No. 4, November 1987, pp.723-732.

Partial equilibrium analysis of targeted export subsidies was presented in Sharples⁸ and was extended by Abbott, Paarlberg, and Sharples. In addition to finding that targeted export subsidies are potentially welfare-increasing to the subsidizing country, Sharples disaggregates the rest-of-world into importers and exporters to show that competing exporters may benefit from these subsidies as well.

Figure 11 shows a targeted subsidy program under the assumption that world market prices rise in response to the introduction of U.S. subsidies.⁹ The drop in the price of the targeted country's imports increases that country's demand and leads to a rightward shift of the excess demand curve in the world market. The extent of the shift depends on the targeted country's elasticity of import demand. The subsidized importing country benefits from a lower import price and the other exporters experience welfare gains due to higher world prices. Other importers record losses as world prices rise, and they import lower quantities. The returns to the United States as the subsidizing exporter depend on whether net gains due to increased export volume and export price exceed subsidy costs.

Abbott, Paarlberg, and Sharples extend the partial equilibrium framework to show the effects of targeted export subsidies in a market with several importers and competing exporters and with transportation costs explicitly recognized. They confirm the importance of the targeted country's income and substitution effects in showing that subsidies should be targeted toward the countries with relatively more elastic excess demand functions. They also show that in shared markets, the price responsiveness of competing exporters also determines the market's elasticity as perceived by the subsidizing exporter. An increase in the elasticity perceived by the subsidizing exporter may result from price responsive stock-holding behavior on the part of a competing exporter or from the possibility of the competitor expanding into a more elastic second market not shared with the subsidizing exporter.

For example, assume that the USSR has an inelastic excess demand and is targeted for U.S. export subsidies. If the United States is the sole source of wheat for the USSR, then no welfare gain accrues to the United States. However, if it is assumed that the USSR is more price responsive, then there would be a welfare gain

⁸ Sharples, Jerry A., "The Economics of Targeted Export Subsidies," Dept. of Agr. Economics Staff Paper No. 84-11, Purdue University, July 1984.

⁹ USDA, ERS, Embargoes, Surplus Disposal, and U.S. Agriculture. Staff Report No. AGES660910, November 1986.

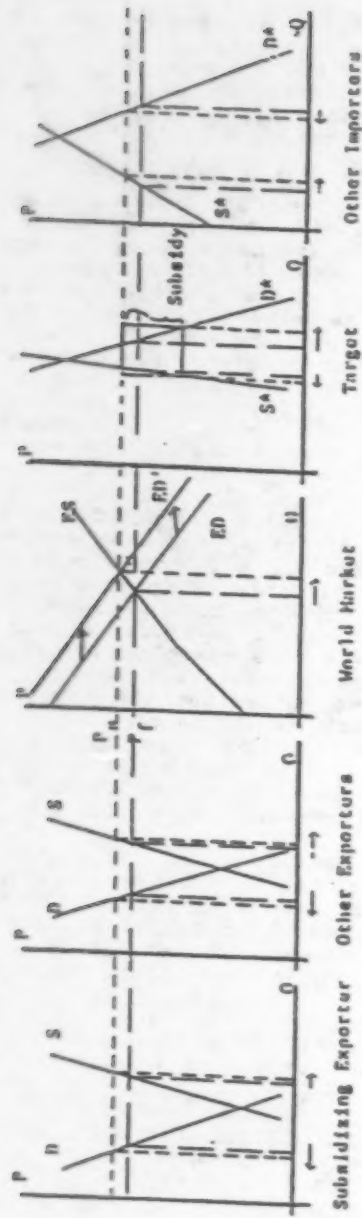


Figure 11

to the United States. However, in both cases, if the Soviet Union is supplied by another exporter with a relatively elastic excess supply (perhaps due to that country's stock holding-behavior), then U.S. exports may increase due to an EEP subsidy targeted on the USSR since the competitor may withdraw from the Soviet market.

Further, even if a market is not supplied by the subsidizing exporter due to transportation cost disadvantages, the subsidizing exporter may still exploit the elasticity of this market to increase sales in a shared market. By subsidizing markets shared with those competitors who do supply the market beyond reach, the competitors may retreat from the shared market and attempt to increase sales to the elastic market where the subsidizing exporter is not active.

Targeted In-Kind Export Subsidy. A special consideration of an in-kind subsidy such as the EEP is that the government-owned commodities released as a subsidy are awarded to U.S. exporters, but not necessarily exported. This implies potential repercussions on U.S. prices that depend on the relative volumes of EEP sales and bonus commodities released from CCC stocks. Figure 12 shows these effects as U.S. excess supply changes with implementation of the EEP and release of CCC stocks. The U.S. non-EEP market excess supply, ES0, is shifted leftward by the EEP to ES1, since sales under the EEP leave fewer commodities available for non-EEP sales. The non-EEP market excess demand facing the United States, ED0, is shifted leftward by a smaller quantity to ED1 reflecting the withdrawal of the targeted countries participating in EEP sales. The inequality of these two shifts results from a higher level of demand by the targeted countries in the lower-priced EEP market than would have occurred in the higher priced commercial market. Thus, a higher price but a lower level of U.S. non-EEP exports (at Q1,P1) results.

A second shift in the U.S. non-EEP market excess supply curve, from ES1 to ES2, reflects the possibility of some portion of the payment-in-kind bonus released from CCC storage being channeled into world markets. The extent of this shift determines whether the EEP causes U.S. domestic wheat prices to rise or fall. In the case shown in Figure 12, the U.S. price falls below its original level with U.S. non-EEP exports also below original levels at the equilibrium (Q2, P2).

Additionality

Additionality is the increase in total exports of a specific commodity such as wheat attributable to the EEP. The concept is important for evaluation of an export program since the extent to which a program boosts exports will affect domestic prices, government farm program outlays, and economic activity in the farm sector.

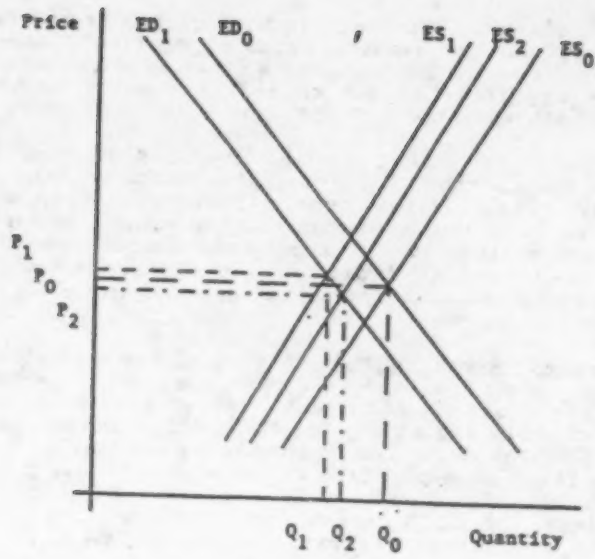


Figure 12

Additionality may be examined at both the country and program levels. At the country level, consideration of additionality is needed to determine the ability of the program to assist specific sales. Additionality at the program level relates to the EEP's overall effect on U.S. wheat exports.

Measuring additionality at the country level alone overlooks the potential of the program to rearrange existing trade flows among competitors and markets. As a reaction to a subsidized sale to one country, competitors may redirect trade to U.S. markets. A subsidized U.S. sale to a large target market in a tight supply period may mean that U.S. supplies will be unavailable to hold market share elsewhere. While U.S. exporters may gain sales and market share in specific countries, the overall volume and market share of U.S. wheat exports may remain nearly constant. This situation would imply low additionality at the program level. However, if other suppliers also have tight supplies, the United States could increase sales in the targeted market as well as maintain or increase overall world market share.

Measuring additionality at the program level alone overlooks the effectiveness of the EEP to increase sales and share in a targeted market. A program with low overall additionality may have high additionality in the targeted market by displacing sales of competitors.

Factors that Affect Additionality. From the theoretical discussion above, two factors in particular would be expected to affect the additionality of the EEP (see table 6). One is the importer's price elasticity of demand. A country with a relatively high price elasticity of demand will purchase a large volume of wheat overall relative to a change in wheat prices. Hence, if the price of wheat is lowered to that country, its overall imports will grow. The subsidizing exporter will benefit from higher exports and a larger market share.

Most countries' total import demands for wheat are relatively unresponsive to changes in the world wheat price. This stems from the fact that wheat is a staple, and has few substitutes. Further, importing governments may set policies which restrict wheat imports (e.g., Nigerian wheat import ban which was implemented in 1987) or restrict transmission of world price changes to domestic producers and consumers (e.g., variable levies). However, some importers are more responsive than others, and whether relatively more or less responsive countries are targeted will affect the program's additionality. "The most favorable conditions for a welfare gain in the subsidizing country are when small subsidies are targeted at relatively elastic markets. Additional increases [cause] the

TABLE 6
FACTORS THAT AFFECT ADDITIONALITY

WHEN ⁽¹⁾	IMPORTERS' EXCESS DEMAND ELASTICITY		COMPETITORS' EXCESS SUPPLY ELASTICITY		IMPORTERS' ELASTICITY OF SUBSTITUTION		EXPORTABLE SUPPLIES IN WORLD MARKET ARE RELATIVELY		U.S. SHARE OF MARKET (%)		IMPORTERS' EXPECTATIONS OF BEING TARGETED	
	HIGH	LOW	HIGH	LOW	HIGH	LOW	TIGHT	IN EXCESS	HIGH	LOW	HIGH	LOW
IS ⁽²⁾												
THEN ADDITIONALITY IN THE TARGETED NET WILL LIKELY BE ⁽³⁾	HIGH	LOW	HIGH	LOW	HIGH	LOW	TIGHT	IN EXCESS	HIGH	LOW	HIGH	LOW
BECAUSE ⁽⁴⁾	IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. COMPETITION WILL LIKELY RETREAT FROM TARGETED NET. COMPETITION WILL LIKELY RETREAT FROM TARGETED NET. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL LIKELY INCREASE TOTAL IMPORTS DUE TO LOWER PRICES.											
FOR EXAMPLE ⁽⁵⁾	N. AFRICA (1984/87) NIGERIA (1984/87) IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES. IMPORTER WILL INCREASE TOTAL IMPORTS DUE TO LOWER PRICES.											

(1) ASSUMING THE IMPORTER HAS AN INELASTIC DEMAND.

(2) UNLESS NET IS SHARED WITH A COMPETITOR WHO WILL RETREAT FROM NET, THEN ADDITIONALITY MAY BE HIGH.

HIGH IN BOTH COUNTRIES SINCE IMPORTER MAY NOT SWITCH FROM U.S. WITHOUT SUBSIDY; NEW IMPORTER MAY SWITCH BECAUSE OF BEING TARGETED UNDER EEP.

GREATER POTENTIAL FOR NEW SALES.

LITTLE POTENTIAL FOR NEW SALES.

increase in welfare to slow and eventually become negative".¹⁰

The second factor is competitors' excess supply elasticity. If a competitor has a high excess supply elasticity, then in the face of EEP subsidies, the competitor will likely retreat from the EEP-targeted market and either hold greater stocks or attempt to sell in another market. In the long-run, the competitor may reduce production if expectations are for low wheat prices. The effectiveness of the EEP would be less if the competitor has a low excess supply elasticity (e.g., the competitor is able to hold markets by lowering export price through export restitutions or by absorbing losses by a grain board), or if the competitor retaliates either in the same targeted market or in other non-targeted markets.

Sales by U.S. exporters in specific markets are affected in part by EC attempts to make sales there. This highlights the difficulty of a targeted export program: after the United States targets EC markets, the United States faces a loss of other markets in which the EC chooses to retaliate. Other markets, even those that would have purchased from the United States in the absence of the program, must be targeted to avoid retaliation and to maintain pressure on the EC. Thus, once the program is implemented, the ability of the United States to maintain and increase exports depends on the response of the EC to the program. Certainly, the EC incurs higher transaction costs in searching out new market opportunities as a result of the disruption in its "normal" markets. If the EC responds aggressively, the United States must respond aggressively. This is reflected in the variation of bonuses by country.

One of the limitations of the studies presented in the next section is that it is unclear how aggressively the EC would have pursued markets in the absence of the EEP. However, based on the EC's transformation from a net importer of grain to a major exporter and its unwillingness to carry stocks, it seems likely that the EC would have continued its pursuit of markets for excess grain.

The above discussion assumes that the commodity in question is a homogeneous good. In reality, a commodity such as wheat can be differentiated by class or source, although to a lesser extent than other commodities such as processed products. The degree to which wheat can be differentiated by importers will also affect the additionality of an export subsidy program at the country level. Because there is substitutability among wheat from different exporters, importers can switch suppliers as relative prices offered by competing suppliers change. Substantial competition in the world wheat market indicates that opportunities for switching

¹⁰Abbot, Paarlberg, and Sharples.

suppliers are common. Additionality is expected to be higher among those markets with higher elasticities of substitution, or, in other words, among those importers who switch sources to take advantage of the lowest possible price. Long-term supply agreements, once signed and if effective, may inhibit some importers from such switching.

Related to the question of switching sources is that given the existence of the EEP, higher additionality is expected in countries that use their market power to extract the best possible terms of sale from potential sellers. Sales by U.S. exporters to the USSR and China likely had high additionality during periods of surplus supplies on the world market. It is likely that the USSR and China, at times the world's largest importers, would not have purchased from the United States during periods of large excess supplies without a subsidy so long as they expected they could extract subsidies from other exporters.

Also related to the question of switching sources is that additionality is likely to be higher in those markets where competition among sellers is strong or conditions are such that an excess supply overhangs the market. Large supplies of a homogeneous commodity and resultant depressed prices encourage government subsidization of exports and increase competition for markets. In these conditions, the EEP may have high additionality by helping maintain or gain U.S. sales. As market conditions change, and as competition between importers increases while diminishing among exporters, additionality may decline.

Higher levels of additionality would be expected in markets where the United States holds relatively little market share compared to the EC, perhaps because of transportation differentials, and hence has the largest opportunity to displace a large volume of EC exports. Algeria is an example of such a market where the EC held a large share in 1983/84 and 1984/85. Additionality would be lower in a commodity market such as corn, where the United States is the dominant supplier and the amount of subsidized competition is relatively low.

Lower additionality is likely in markets where the share of subsidized sales is relatively small such as markets the United States has traditionally held (for example, South Korea), and those in which U.S. exporters may have an advantage in lower transportation costs. In markets such as South Korea, the additionality of the EEP would come less from displacing other exporters and more from increased overall imports by the Koreans in response to lower price.

Once the program is implemented, importer expectations of being eligible for the EEP and of changes in world wheat prices together affect the continued additionality of the EEP. Additionality would be higher in markets where importers do not expect to be targeted,

but then change sources to the United States because of the EEP. Once an initiative is offered, the importer will likely expect that it be continued. If the initiative is not renewed, and if expectations are that prices will remain low, the importer may not purchase from the United States until it is renewed. In this case additionality would be high also since without the EEP, if price expectations remain constant, U.S. sales may not be made. Similarly, ineligible importers may expect to be targeted, and may refrain from purchasing U.S. wheat until they are. As supplies tighten and if expectations were that competitors' prices would also rise, then perhaps the importer would purchase without the EEP and additionality would be lower.

Estimates of EEP Additionality. Several studies have estimated the effect of the EEP on U.S. wheat exports. (See the appendix for detail on these studies.) All have estimated that wheat exports are higher than they would have been in the absence of the EEP. However, the magnitude of additionality varies among the studies due in part to the time period analyzed.

Measures of additionality compare exports under the EEP compared to exports had the EEP never been implemented. Estimates of additionality calculated in this manner may differ from the additionality of continuing an existing program.

Many factors contributed to expanded U.S. exports between 1985/86 and 1987/88, including lower price-support loan rates, and smaller and poorer quality supplies in other countries. Thus, although the EEP corresponded with a large increase in U.S. exports, other variables contributed as well. A forthcoming study by an ERS economist reports that of the increase in U.S. wheat exports, the EEP accounted for about 30 percent of the increase in 1986/87 and about 20 percent in 1987/88 and 1988/89.¹¹ Other factors were lower loan rates, and higher import demand by the USSR and China, and lower yields of U.S. wheat competitors.

The EEP increased U.S. wheat exports beyond what would have occurred had the program not been implemented. Bailey found that wheat exports rose 20 percent in 1986/87 and just under 10 percent in 1987/88 marketing year due to the EEP.¹² Another ERS study found that the program likely increased U.S. wheat exports by 10 to 30 percent in 1986/87 depending upon the extent to which the EC lowers its export subsidies in the absence of competition under

¹¹Bailey, Kenneth. "Why Did U.S. Wheat Exports Expand? USDA, ERS, Agricultural Information Bulletin, forthcoming.

¹²Bailey, Kenneth. "The Impact of the Food Security Act of 1985 on U.S. Wheat Exports: An Econometric Analysis." Doctoral dissertation. University of Minnesota. September 1988 and updates.

the EEP.¹³ Hillberg found that the EEP increased U.S. wheat exports by 2-3 percent during late 1985 and early 1986 and by about 12-14 percent during the second quarter of 1987.¹⁴

Additionality is affected by many factors, including the elasticities of importers' excess demand and competitors' excess supply. The latter factor also relates to the competitiveness of the market, including the existence of surpluses overhanging the market and the U.S. share of the market. The importers' elasticity of substitution, and their expectations of being eligible for the EEP are also important, especially for country level additionality. Conclusions about additionality of the EEP are also influenced by assumptions about how price responsive are the USSR and China.

Export Efficiency of the EEP. A concept related to the additionality of an export program is its export efficiency which is the percentage of a program's exports that occur solely because of the program. For example, if all the program's exports were in addition to those that would have been shipped had the program never been implemented, then its export efficiency would be 100 percent. If foreign buyers simply shifted their planned purchases to purchases under the program, then the export efficiency would be zero.

This calculation may also be useful for evaluation of a program's cost effectiveness and net economic benefits. If the program has high export efficiency, then it is more likely to yield net benefits accruing through increased export demand such as higher export revenues than would be the case if the export efficiency of the program is low.

To calculate export efficiency, the increase in exports due to the EEP is divided by the total volume of EEP shipments. If the volume of total EEP shipments grows faster than the increase in U.S. exports due to the program, then efficiency may decline over time. For example, if the EEP increased total wheat exports by 3 million tons, but total EEP shipments were actually 4 million tons; efficiency would be 75 percent. If in the following year the EEP increased total wheat exports by 6 million tons, but total EEP shipments were 12 million tons, then the efficiency would fall to 50 percent.

Estimated EEP efficiency has changed over time.¹ The studies just discussed suggest that as the program expanded beyond North Africa the efficiency declined. Declining efficiency may be associated with the expansion of the program to markets that are less price

¹³ Haley, Stephen.

¹⁴Hillberg, Ann Marie

responsive than those of North Africa.¹³ Further, market conditions changed during the program: there was a strong drop in production in other exporting countries combined with a strong increase in import demand by China and the USSR. These conditions combined to produce less competition among exporters and more among importers, a situation less conducive to an efficient EEP.

Bailey's estimated efficiency in the 1986/87 marketing year (when the program was relatively small) was about 70 percent, but fell to about 10 percent as the EEP was greatly expanded in 1987/88.¹⁴ This result depends on the assumption that Soviet and Chinese total wheat imports from all sources were not very price sensitive and would have increased with or without the offers of price subsidies. In particular, the assumption is that the EEP increased U.S. market share in the USSR, but did not generate additional total U.S. wheat exports. This is because, had U.S. exporters not sold to the Soviets under the EEP, they may have been able to partially offset lost Soviet sales with sales to markets vacated by competitors who did sell to the USSR. However, if the USSR and China are more price responsive than assumed by Bailey, then these countries would have purchased more wheat in total and U.S. shares of these and the world market would have increased. Under this assumption EEP export efficiency would have been higher.

Assuming lack of price responsiveness for the USSR, Hillberg also shows a decline in export efficiency. It declined from about 10 percent from the late 1985-early 1986 period to about 5 percent for the second quarter of 1987. However, assuming that the USSR is price responsive, this study implies that efficiency increased from about 10 percent to 15-20 percent as the program was expanded to the USSR. As these results indicate, the import behavior by the USSR and China are important determinants of the efficiency of the program because of their large impact on U.S. and world wheat trade.

¹³Hillberg, Ann Marie

¹⁴Bailey, Kenneth. Doctoral dissertation.

CHAPTER 3. ASSESSMENT OF EEP CRITERIA

Four criteria were set out to guide operation of the EEP. Specifically, the intent was that each EEP initiative would meet the criteria of additionality, targeting, cost effectiveness, and budget neutrality. It is difficult to provide precise quantitative evidence about how effectively each of these criteria has been met. This is in part due to other constantly changing factors that affect agricultural exports such as farm policy here and abroad, exchange rates, and market conditions. Moreover, while ex post estimates of additionality or budget neutrality may be made on an aggregate commodity basis, it is difficult to do so for a particular commodity initiative because competitors may respond in other markets.

The criteria are interrelated. Targeting is a means to help achieve additionality and to maximize potential pressure on competitors who subsidize exports. Achievement of additionality or expansion of export volume is a necessary condition for the EEP to be budget neutral and for it to be cost effective as measured by the net benefits from export expansion. Consequently, analytical findings of additionality are necessary if the program is to be budget neutral or cost effective in the short term. Long-term benefits including budget savings that might occur from successful trade negotiations and policy reform in other countries caused in part by the EEP may not necessarily depend on short-term additionality. This is because the EEP pressures subsidizing competitors and increases their costs if they choose to counter the EEP fully.

TARGETING

The EEP is a targeted export subsidy not intended to be applied across-the-board: "...sales will be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports."¹⁷ The EEP has mainly been targeted at those markets where the EC subsidizes exports or threatens to do so. And while the EEP has been targeted, the number of countries offered initiatives has increased over time as the EC extended subsidies to countries where it traditionally has not made sales or such extension was anticipated.

However, the EEP was not intended to be limited to just those markets where the EC subsidizes exports. In some cases, the EEP was extended to countries that had not previously been making significant purchases from the EC. In such cases, the targeting criterion was considered more broadly in terms of pursuing "specific market opportunities."

¹⁷Economic Policy Council as stated in the Federal Register.

Targeting under the EEP makes the program discriminatory in that it excludes many countries and commodities. Some countries have complained about being excluded from the EEP. Whether or not such complaints have led to switching from the United States to other suppliers is unclear. However, the threat of substitution has been a key factor in targeting of the program to some major markets as the program has evolved. Importer complaints and threats of altering suppliers are a risk of targeted export subsidies.

Little gain in exports can be expected from targeting the EEP to markets which are normally dominated by the United States. An exception is those markets where total import demand is highly price responsive or where there is evidence that these traditional customers would shift to other suppliers if EEP sales were not offered to them. While this study has not examined each initiative in detail, it appears that no major wheat initiative was targeted to a traditional U.S. market without some evidence that this exception would apply.

Operation of the EEP through incremental initiatives has permitted targeted markets to be adjusted in response to changes in the behavior of competing exporters, specifically the EC, and to changes made by importers. Evidence that the EEP has exerted budget pressure on the EC and reduced EC market shares relative to the United States indicates that targeting has been at least partially successful. However, the EEP's history also demonstrates the difficulty of isolating the effects of a targeted export subsidy in a competitive world market.

ADDITIONALITY

In the simplest terms, additionality means that EEP "...sales must increase U.S. agricultural exports above what would have occurred in the absence of the program."¹⁸ The EEP has increased wheat exports and likely the exports of other targeted commodities.

Additionality is the fundamental factor in evaluating the EEP. Additionality is necessary for the program to be budget neutral and cost effective in the short term. Long-term budget savings and broader economic benefits from the EEP also depend on the ability to expand exports. However, consistent short-term additionality may not be necessary to pressure competitors to negotiate the removal of subsidies and other impediments to trade. But, larger U.S. exports at the expense of subsidizing competitors may increase the likelihood of successful negotiations.

Subsidization generally leads to more of the activity that is subsidized. By reducing the price of U.S. exports to match the

¹⁸ Economic Policy Council

terms offered by competing exporters, the EEP subsidy gives targeted buyers the incentive to substitute U.S. products for those of competitors. An export subsidy also permits importers to buy more at lower prices than otherwise would be the case. Therefore, EEP subsidies increase exports through both of these effects. How much the subsidy expands exports through substitution for exports from other sources depends on the reaction of competitors. In the case of wheat, the EC has to some extent attempted to subsidize exports to other markets as it has been challenged by the EEP. Thus, the EC has partially counteracted the EEP, reducing the additionality below the level obtainable with no EC retaliation. For this reason, the additionality achieved by the EEP in total is likely to be smaller than the sum of anticipated export gains in each market.

Total EEP sales have been \$8.1 billion of agricultural commodities with an average subsidy of 30 percent of the sales value. In other words, there has been an average subsidy of \$3 for every \$10 of export sales. The aggregate exports of the 12 commodities sold with commodity bonuses are likely larger than they would otherwise have been. As discussed in Chapter 3, there is a clear preponderance of evidence that U.S. wheat exports are larger as a result of the EEP. It is estimated that the EEP may have increased U.S. wheat exports by 10-30 percent in 1986/87 and just under 10 percent in 1987/88. Estimated additionality has varied over time as market conditions and the size of EEP bonuses and sales have changed. Market analysts also believe that the EEP has expanded exports of other commodities, particularly vegetable oil, barley, poultry and eggs.

The specific effects of each EEP initiative have not been estimated. Nevertheless, the EEP has probably achieved a higher level of additionality in markets where the EC is a major seller and the United States has been a smaller seller than in those markets where the EC is far less of a player. In those markets where buyers prefer U.S. wheat but do not buy because of price relationships, buyers will switch when U.S. wheat is priced competitively with EC wheat. Moreover, a country eligible for EEP bonuses will expect continuation of such subsidies and if subsidies are withdrawn, the country may shift to other origin wheat. Also, countries which expect to be eligible for EEP bonuses may threaten to shift to other sources if the subsidy is not received.

As these expectations have been developed by the EEP, the nature of the additionality achieved by the program has been altered. Potential effects on U.S. exports from the removal or threatened removal of the EEP once it was established differ from the expected effects from the original initiation of the program because of changes in expectations.

Additionality as a percent of total EEP wheat sales volume has fluctuated over time and various estimates suggest that it has

declined over time. This probably is due to the expanded portion of total wheat export sales which have been made under the EEP, targeting of somewhat less price-responsive markets, and more recently by the tightened market situation and smaller exportable supplies held by competing suppliers. Wheat additionality is estimated to have been highest in early years and lower recently. Estimates of the EEP's export effects are also subject to uncertainty because exports in the absence of the program depend on how aggressively the EC or other exporters would have promoted exports and the response of total Soviet and Chinese wheat imports to prices. In sum, greater additionality is likely when importers are highly responsive to prices, competitors' supplies are responsive to prices, importers are willing to switch among suppliers, world export supplies are large, and the U.S. share of the targeted market is small.

BUDGET NEUTRALITY

The criterion of budget neutrality is that "sales should not increase budget outlays beyond what would have occurred in the absence of the program."¹⁸ There is evidence that the EEP has been neutral with respect to wheat program outlays and actually may have reduced outlays. As in the case of additionality, the budget effect of the EEP will vary in different circumstances, especially with regard to market conditions which affect bonus levels and additionality.

Commodity certificates given to exporters are in-kind export subsidies that reduce the prices paid by foreign buyers and increase U.S. exports. In and of itself, the issuance of a commodity certificate to an exporter has no direct outlay effect. The only direct budget effect is an increase in CCC realized losses from the disposition of CCC assets without corresponding sales receipts. CCC outlays for the commodities exchanged for the certificates were incurred at the time price-support loans were made. (However, outlays for storage continue as long as the commodities are held.) The CCC is reimbursed by the Congress through annual appropriations for its realized losses, but this does not increase outlays or raise the Federal deficit.

Whether the EEP affects outlays depends on commodity market conditions and the responsiveness of exports to prices. CCC outlays which will be affected are inventory storage costs, deficiency payments, and commodity lending--regular and farmer-owned reserve loans made and repaid.

The key to whether the EEP affects outlays is the degree to which exports increase relative to the quantity of CCC stocks that are exchanged for commodity certificates and added to market supplies.

¹⁸Economic Policy Council.

An increase in free stocks--stocks not owned by the CCC nor held by farmers in the farmer-owned reserve--generally reduces prices. This is because an increase in free stocks increases the amount of a commodity such as wheat that is readily available to buyers. If additional exports fully absorb or exceed the CCC commodities that are added to free stocks, market prices increase because total supplies are reduced. As a result, outlays decline since CCC storage costs are reduced, net price-support lending is smaller, and deficiency payments may be lower. If larger exports do not offset CCC commodities that are added to free stocks, prices may fall and increase deficiency payments and price-support lending outlays.

To achieve budget neutrality, a high level of additionality is not necessary in every market. What is required is that the level of total additional exports must be equal to or greater in volume than the bonus commodities released from CCC inventory. It is the relationship between additionality and bonus levels and not the absolute magnitude of additionality that determines the EEP's outlay effects.

The additionality of EEP sales is critical to the budget effect as is the volume of CCC stocks that are exchanged for certificates. Exporters can exchange certificates for CCC commodities other than what is exported; for example, an exporter of wheat under the EEP can exchange certificates for corn or other available commodities. This can shift the incidence of farm program budget effects among commodities but may not significantly alter the total CCC budget effect.

As indicated by USDA certificate exchange data, nearly all EEP commodity certificates have been exchanged for CCC commodities. As of March 31, 1989, there had been \$23.6 billion of commodity certificates issued, including over \$2.1 billion for the EEP. However, nearly \$6 billion of certificates have been exchanged for CCC stocks, nearly 3 times the value of EEP commodity certificates.

Commodity certificates given to farmers for deficiency payments have been estimated to have about the same outlay effect as cash payments mainly because they are used to pay off old price-support loans, as well as new loans that otherwise would not have been made. In these cases, farmers receive loans in cash and repay in certificates which means that the CCC experiences net outlays. Since EEP commodity certificates have not been used to pay off loans, they have not had this outlay effect.

The EEP commodity certificates issued as bonus payments have no direct budget outlay effects. This combined with export additionality tends to reduce CCC costs which helps to offset the cost-increasing effects of any CCC stocks released to the market. Consequently, it is erroneous to associate EEP bonus levels directly with budget outlays. Rather, it is the relationship

between additionality and bonus quantities which determine how budget outlays may be affected by the EEP.

Estimated Budget Effects

The budget effects of EEP were estimated in terms of wheat program outlays for the 1986/87, 1987/88, and 1988/89 marketing years. An econometric model specifically developed for estimating wheat program outlays was used.²⁰ The basic approach was to compare actual or estimated (for 1988/89) wheat program outlays with those estimated in the absence of the EEP.

A key assumption was that the value of EEP commodity bonuses for wheat each year reduced the export price of every bushel exported. For example, the total value of EEP bonuses in 1987/88, about \$1 billion, was spread across the 1.592 billion bushels of wheat exported which gave a per bushel subsidy of about \$0.65. This assumption implied an average U.S. export price below the domestic price by the \$0.65 per bushel price gap before adjustment for the effects of the additional CCC commodities released to the market. Therefore, in the absence of the EEP bonuses, the model initially assumes the U.S. export price would rise to the domestic price level (which could fall as well) and thus higher export prices would lead to smaller exports, depending upon the export demand elasticity.

Two short-term export demand elasticities were used, -0.5 and -1.0. A recent review of research indicated that the average short-term export demand elasticity is -0.72.²¹ Because the short-term export demand elasticity may not account for all factors affecting export responsiveness to EEP, a range of elasticities was used for this analysis. For the purposes of the analysis of wheat program costs, it was also assumed that in the absence of EEP commodity certificates that an equivalent amount of certificates would have been substituted for cash deficiency payments. This assumption is consistent with government policy since 1985 to provide significant access to CCC-owned commodity inventories and to producer-held stocks under price-support loans regardless of whether or not EEP was in effect.

Based on the econometric model, the EEP increased total wheat exports over 1986/87-1988/89 by 8-14 percent as compared to exports in the absence of the EEP. By year, the EEP increased exports by 2-5 percent in 1986/87, 12-25 percent in 1987/88 and 7-10 percent in 1988/89. Overall, these export changes are comparable to the additional exports estimated by other methods discussed earlier.

²⁰Developed by Larry Salathe, Economic Analysis Staff, USDA.

²¹ Price Elasticity of Export Demand. Concepts and Estimates. USDA/ERS, FAER Number 228, p.20. (February 1987)

Over the 1986/87-1988/89 period, U.S. wheat exports were estimated to be 300-500 million bushels larger because of the EEP.

With larger exports and smaller free stocks, estimated average U.S. farm prices were 4-17 percent higher with the EEP. This led to smaller total deficiency payments (a 5 percent higher wheat price reduces annual deficiency payments by \$250-300 million), net lending, and CCC storage costs:

- o With an assumption of low export response, the EEP increased wheat program outlays a little in 1986/87 and by 10 percent in 1987/88, while it would have reduced outlays by 10 percent in 1988/89 when the cumulative effect of the EEP was greatest. For the 3-year period, the EEP would have increased outlays by about 2 percent under a low export response.
- o With a high export response, wheat outlays are estimated to be smaller each year because of the EEP. For the 3-year period, outlays are estimated to be 10 percent lower.

Change in Wheat Outlays
Due to the EEP
(\$ million)

Marketing Year	Low Export Response	High Export Response
1986/87	+16	-63
1987/88	+193	-250
1988/89	-111	-489
Total	+98	-802

This analysis indicates that the EEP has generally met the budget neutrality criteria with respect to wheat. In fact, based on an average short-term export demand elasticity of about -0.7, the midpoint of the low and high export responses above, the EEP is expected to have reduced wheat outlays over the past three years.

The analysis shows EEP has had a cumulative favorable effect on CCC outlays in that it accelerated the reduction of excess stocks and increases in farm prices compared to what would have happened without the program.

The budget effects of the EEP for other commodities have not been estimated. However, it is likely that for other program crops such as barley the EEP tends to be at least budget neutral. For non-program commodities such as dairy cattle, there are no direct

reductions in CCC outlays associated with the EEP. In these cases, the certificates exchanged for CCC commodities increase free stocks and affect prices which could lead to some increase in outlays for supported commodities. However, to the extent that the production of livestock and poultry increases in response to higher export demand, there is some increase in demand for grain and soybean crops that would dampen price reductions and outlay increases.

In aggregate, the EEP is likely to have met the budget neutrality criterion, especially if wheat program savings offset any increased outlays due to EEP support for non-program commodities. This is not to say that all individual EEP sales have been budget neutral nor that changing market conditions do not affect additionality and budget outlays. A review of wheat bonus levels and estimated additionality over time and across major markets indicates that both tended to move in parallel fashion. As markets have tightened recently and estimated additionality has declined, so have bonus levels. Thus it cannot be concluded that CCC outlays have increased as additionality has declined. Review of wheat initiatives also indicates that early initiatives in markets heavily dominated by subsidized exports achieved high levels of additionality but with high bonus levels. Later initiatives to counter EC threats in markets where the EC had transportation and other cost disadvantages achieved lower estimated additionality but required smaller bonus payments.

The United States Congress has a different perspective on the budget effects of the EEP. Based on Congressional Budget Office(CBO) budgetary procedures, the Congress assumes that the EEP increases outlays. Savings were scored for FY 1989 when the level of commodity bonuses under the EEP was capped at \$770 million in the FY 1989 agriculture appropriations act. This cap was below the \$900 million of commodity bonuses in the Presidents Budget baseline for 1989. In addition, the CBO estimates that elimination of the EEP would save nearly \$2 billion over FY 1990-1994.²² This means that the CBO estimates that the EEP increases outlays by \$0.65 per \$1.00 of commodity certificates awarded. The preceding analyses call into question the empirical basis for CBO's conclusions.

COST EFFECTIVENESS

The cost effectiveness criterion states that EEP "...sales should result in a net plus for the overall economy."²³ The net benefit of the EEP to the U.S. economy depends on all benefits and costs to U.S. producers, consumers, and taxpayers. Producers benefit

²² Reducing the Deficit: Spending and Revenue Options, United States Congressional Budget Office(February 1989), p. 175.

²³ Economic Policy Council

from the expansion of exports due to the EEP. Higher levels of exports translate into higher levels of production of farm products at higher farm prices, and consequently, into larger farm revenues. Grain producers, for example, have benefited from both larger exports of grain under the EEP and higher demand for their products associated with expanded exports of poultry and dairy cattle due to the EEP. For producers in commodity programs, the EEP has meant that a larger share of farm revenues have come from the market, reducing dependence on government payments.

Benefits to farmers also have economy-wide multiplier effects. When farmers produce more, they purchase more farm inputs and require more services of the farm distribution and processing system. These factors result in gains in employment and income to the economy. Even EEP exports derived from CCC stocks rather than new production generate some economic activity as these stocks are channelled through the marketing chain. It is estimated that every \$1 of farm products exported generates up to \$2 of business activity across the country.²⁴ The actual multiplier applicable to the EEP depends on the extent to which additional exports result in new production and resources are fully employed.

Taxpayers appear to have benefited from the EEP as farm prices rose and outlays for farm programs fell. These benefits appear to have increased as prices have risen and there has been less incentive to recycle commodities issued as bonuses back into CCC stocks. As indicated earlier, estimated wheat program outlay savings from the EEP were as high as \$250 million in marketing year 1987/88.

These taxpayer benefits must be weighed against the increase in CCC realized losses from the disposition of CCC assets without corresponding sales receipts. In a period of high stocks and low prices, these assets may have had a very low value. As prices have risen and stocks have declined, each unit of the assets takes on a greater value to the economy.

The EEP has resulted in some loss to consumers by shifting farm income support from taxpayers to consumers. However, because of the relatively small importance of farm prices to retail food prices, especially for wheat, the effect of the EEP on consumers is small. Wheat accounts for about 5 cents of the retail price of a loaf of bread. Some consumer interests have objected to higher costs generated by the EEP and to the fact that overseas sales of some basic commodities have occurred at lower prices than domestic sales.

In any one year, the actual net benefit to the economy fluctuates according to the degree to which additional exports exceed added

²⁴Economic Research Service input/output multiplier analysis.

market supplies through the release of CCC stocks and the value of bonuses awarded. Thus, the returns to the U.S. economy depend largely on whether net gains due to increased export volume and prices exceed the reduction in CCC asset values adjusted for changes in CCC outlays. Over the longer term, the net benefits also depend on the EEP's contribution to a successful outcome of agricultural trade negotiations. It has been estimated that multilateral liberalization of agricultural trade in 1986 would have added close to \$9 billion to the net welfare of U.S. agricultural producers, consumers, and taxpayers.²⁵

²⁵ ERS trade liberalization analysis.

CHAPTER 4. ASSESSMENT OF OBJECTIVES

The EEP has three principal objectives: (1) to increase U.S. farm product exports; (2) to challenge unfair trade practices; and (3) to encourage trading partners to negotiate seriously on reform of world agricultural trade practices. This study concludes that these objectives have been met.

INCREASE EXPORTS

To date, \$8.1 billion of commodities have been sold under the EEP with commodity bonuses equal to 30 percent of the sales value. Aggregate exports of the 12 commodities under the EEP are likely larger than they would otherwise have been. Based on analysis conducted by USDA's Economic Research Service it is clear that wheat exports are larger because of the EEP. Wheat sales have accounted for about 85 percent of total EEP sales and nearly 40 percent of wheat exports since mid-1985 have been made with commodity bonuses. In addition, EEP sales have also accounted for consistently large shares of flour and barley exports. For other commodities, the importance of the EEP has varied from year to year. However, for all of the commodities it is believed that the EEP has increased exports, especially of barley, flour, vegetable oils, poultry and eggs.

CHALLENGE UNFAIR TRADE PRACTICES

EEP initiatives have been targeted to those markets in which competitors, especially the EC, subsidize exports. There is no doubt that the EEP along with other U.S. policies including lower loan rates and the release of government-owned and producer-held stocks have increased the costs of those countries that subsidize exports. Most EEP initiatives for wheat, flour, barley, vegetable oils, and poultry have directly cut into the EC's highly subsidized sales to its traditional markets. One ERS study estimates that 35-40 percent of the increase in the EC's export subsidy costs is due to the EEP.²⁸

INCENTIVE FOR NEGOTIATIONS

The EEP was intended to encourage U.S. trading partners to begin serious negotiations on agricultural trade problems. Along with other policy actions authorized by the 1985 Food Security Act to increase competitiveness, the EEP signaled the U.S. resolve to regain markets lost in the early 1980s. By providing a price discount for U.S. commodities, the EEP has been a tool to counter unfair trade practices in specific markets.

²⁸ Bailey, Kenneth. Agricultural Outlook, July 1988.

The United States emerged as an aggressive exporter of farm products in 1985 after implementation of the EEP and the passage of the export-oriented farm bill. This was in sharp contrast to its posture in the early 1980s. The re-entry of the United States into world markets spurred trading partners to support multilateral negotiations on agricultural trade problems. It is not difficult to imagine what inertia for negotiations would have existed if the United States had chosen to continue high price-support loan rates and profitable price floors for competitors, large government stocks, substantial acreage reductions, and to remain passive in export markets. Prior to the EEP, there was no progress towards multilateral negotiations on agricultural trade problems.

The aggressive export orientation of the United States has been a major force in the production and trade adjustments made by competitors and in the attention given to agriculture in the Uruguay Round. The General Accounting Office has reached a similar conclusion based on its review of the EEP. In a March 1987 report the GAO stated, "We believe that the EEP, combined with dollar's decline and lower loan rates, has increased the financial cost of the European Community's Common Agricultural Policy, particularly through increased subsidy payments, and has contributed to realizing agreement to include agricultural subsidies in the new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade."²⁷

The EEP is the most visible part of the U.S. strategy for achieving agricultural policy reform during the current round of multilateral trade negotiations. Termination of the program would lessen the pressure needed for the United States strategy to succeed and for agreement on fundamental reform.

²⁷U.S. General Accounting Office, "Implementation of the Agricultural Export Enhancement Program," NSIAD-87-74BR, March 1987, p.8.

APPENDIX

Short Description of Hillberg EEP Model

Hillberg employs a quarterly spatial price equilibrium model combined with Nash bargaining game models to examine the export program for wheat in several different periods. Targeted importers are treated individually in the model, while non-targeted importers are grouped into seven regions characterized as Latin America, less developed Asia, Middle East, developed Asia, Africa, importing European Community, and other Europe. The five wheat exporters included in the model are the United States, Canada, the EC, Australia, and Argentina. Non-EEP quarterly trade elasticities are derived assuming a linear expenditure system, fixed quarterly supplies, and price responsive stock holding behavior by the exporters. These elasticities are combined with base period price and quantity data to construct linear non-EEP excess demand and excess supply schedules for all regions except the United States. The components of U.S. excess supply are treated individually in the model.

Demand for and supply of EEP wheat is determined according to Nash's bargaining solution which divides the benefits of the subsidized exports between the U.S. Government and the targeted country according to a set of prespecified criteria. Because the EEP model assumes that wheat is a homogeneous good the simulation results should be viewed as revealing the maximum possible displacement of other countries' wheat trade by EEP wheat.

Short Description of Haley EEP Model

Haley evaluated the EEP for wheat for the 1986/87 crop year. His model separates out 21 distinct trade regions in a spatial equilibrium framework. The wheat trading behavior of each region is modeled in the form of a net trade equation, except for the United States and the European Community (EC) where distinct supply and demand equations are used. Elasticities used in the model are from the ERS trade liberalization data base maintained by the Agriculture and Trade Policy

(ATP) branch of the Agriculture and Trade Analysis Division (ATAD) of ERS. Targeted US subsidies (EEP bonuses, PL-480 shipments, and GSM-102 credit guarantees), and EC export restitutions are modeled as price wedges separating targeted countries' domestic prices from world prices. The key advantage to the spatial approach used in the analysis is that bilateral trade flows can be identified for the world wheat market, and they can be evaluated when targeted support levels are changed by either the United States or the EC. The model provides comparative static results; that is, it describes a transition from an initial equilibrium state to another without reference to how the new equilibrium is achieved in the real world.

The analysis has several limitations. First, the spatial equilibrium framework minimizes real world rigidities in world wheat trading patterns. Although long-term trading agreements are incorporated, the model probably overestimates the degree to which importers actually switch to competing suppliers when price incentives change. Second, the modeling approach ignores the effect of in-kind subsidies (generic certificates) and stockholding behavior. Both of these factors would serve to moderate the price effects predicted by the model. Third, the model cannot account for EC objectives in setting restitution levels or in responding to specific EEP targets or bonus levels. The model must assume a range of responses and report its results in terms of intervals instead of specific point estimates.

Short Description of Bailey EEP Model

Ken Bailey used a world wheat simulation model to analyze the impact of the Export Enhancement Program (EEP) on the U.S. wheat sector. Bailey isolated four factors that lead to the recent expansion in U.S. wheat exports. They were: (1) the EEP, (2) the lower wheat loan rate, (3) reductions in competitor yields, and (4) increased imports by the Soviet Union and China. Isolating these export expanding factors provided a robust estimate of the effectiveness of the EEP in expanding U.S. wheat exports.

Bailey developed a wheat simulation trade model that solves for the net trading position of each country. This model assumes that the U.S. wheat Gulf price clears the world market, and that all other border prices are simply linked to this price. The model is dynamic and therefore solves for supply, use, stocks and prices for each marketing year. Country coverage includes our major export competitors: Canada, Australia, EC-12, and Argentina; the world's major importers: the Soviet Union, China, Japan, Eastern Europe, and Western Europe; and contains five equations describing the rest of the world. The model is unique in that it contains a highly detailed U.S. component. This component is conditioned on Government program variables and can solve for wheat acreage planted and the participation rate. It also contains detailed information on certificate issuances and exchanges, and accounts for 9-month, FOR, CCC owned, and free stocks.

The major weakness of this type of model is that it cannot solve for trade flows between countries. The model can solve for say total Soviet imports and total U.S. exports, but cannot estimate how much U.S., EC, and Canadian wheat the Soviets imported. Another weakness is that the model does not contain detailed equations describing why most certificates were exchanged for corn and not wheat, and why wheat exchanges for CCC wheat stocks and wheat loans took place the way they did. Historical levels of exchanges were assumed in the model. Another weakness is that exchange rates are not explicitly reflected in the import demand equations.

Effect of EEP on Wheat Export Expansion and Additionality:
A Summary of Model Results

<u>Time Period</u>	<u>Additionality</u> --percent--	<u>Efficiency 1/</u>
October 1985 - March 1986 Hillberg	2-3	10
June 1986 - May 1987 Bailey	20	73
July 1986 - June 1987 Haley	10-30	29-78
April 1987 - June 1987 Hillberg assuming USSR is:		
price responsive	12-14	17-20
not price responsive	3-4	4-6
June 1987 - May 1988 Bailey	7	10 /

1/ Efficiency is measured by dividing the quantity of additional exports due to the program by the total quantity of exports shipped under the program.

United States General Accounting Office

GAO

Testimony

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Status Report on GAO's Review of the Export
Enhancement Program

Statement of
Allan I. Mendelowitz, Director
Trade, Energy and Finance Issues
National Security and International Affairs
Division

Before the
Subcommittee on Wheat, Soybeans and Feed Grains,
Committee on Agriculture
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss with you the status of our ongoing work on the Export Enhancement Program (EEP). Our review is being conducted at the request of the Chairman, House Committee on Agriculture; Congressman Conte, the Ranking Minority member of the House Committee on Appropriations; and Congressman Schumer.

Our current review updates and expands upon the issues addressed in our March 1987 report,¹ which concluded that the EEP had increased exports of wheat and wheat flour in several markets but at that time these increases had been offset by decreased exports to other markets. Importing countries benefitted from purchases of wheat and other agricultural commodities at prices made lower by the increased competition resulting from the EEP. We also concluded that the EEP had increased the cost of the European Community's (EC) Common Agriculture Policy, specifically through increased export subsidy payments, and had contributed to an agreement to include agricultural subsidies in the Uruguay Round of multilateral trade negotiations which were launched in September 1986.

¹Implementation of the Agricultural Export Enhancement Program, (GAO/NSIAD-87-74BR).

During the 2 years since our report, conditions in the world market for wheat have changed. Supply has become relatively tight. This is due not only to adverse weather conditions, including the North American drought in 1988, but also to decisions made by the United States and other governments to reduce production. As a result world wheat prices have increased. As U.S. supplies of wheat become tighter, use of the EEP, or even expectations of its use, could affect the market differently than previously. Whereas in earlier years use of the EEP led to lower commodity prices in the world market, now, given the tighter supply, it could lead to higher prices. Recognizing this, fewer new EEP initiatives have been announced and existing ones have not been extended. While it recognizes that the EEP must be used more selectively, the administration continues to emphasize the program's importance as a trade negotiating tool.

THE EXPORT ENHANCEMENT PROGRAM

The EEP was established in May 1985 by the administration following extensive lobbying by an informal coalition of agricultural trade organizations reacting to continuing decreases in U.S. agricultural exports. Through the Food Security Act of 1985 and subsequent legislation, the Congress made the EEP a mandatory program and has provided over \$2.5 billion in support for the program. For 1989, the program appropriation provided for support up to \$770 million.

The EEP's objectives were to (1) increase U.S. agricultural exports and (2) encourage U.S. trading partners to begin serious negotiations on the liberalization of agricultural trade.

According to guidelines established by the cabinet-level Economic Policy Council in May 1985, each EEP initiative was to meet four criteria.

1. **Additionality:** sales were to increase U.S. agricultural exports above those that would have occurred in the absence of the program.
2. **Targeting:** sales were to be targeted at specific market opportunities, especially those challenging competitors that were subsidizing their exports.
3. **Cost effectiveness:** sales were to result in a net plus to the overall economy.
4. **Budget neutrality:** sales were not to increase budget outlays above those that would have occurred in the absence of the program.

Since its inception, EEP has grown dramatically--as of July 21, 1989, there have been 103 initiatives (i.e., announcements that

specific countries were eligible to purchase specific commodities under EEP). Twelve commodities in 65 countries have been targeted and 73 exporters have participated in the program through the first six months of FY 1989. Four exporters--Cargill, Continental, Louis Dreyfus, and Artfer--received over \$100 million each in bonuses (60% of all bonus awards); Cargill and Continental each received over \$400 million in bonuses.

Total EEP sales are valued at \$8.4 billion, of which wheat represents 82.3 percent. Sales to the Soviet Union and People's Republic of China account for nearly 50 percent of total EEP wheat sales. Sales to Algeria, Egypt, Yemen and Morocco, the first four countries targeted under EEP, represent another 25 percent of total wheat and 60 percent of total wheat flour sales. The remaining EEP commodity sales have been in barley malt, semolina, rice, vegetable oil, sorghum, frozen poultry, table eggs, poultry feed, and dairy cattle.

As of July 21, 1989, the market value of EEP bonuses was nearly \$2.6 billion and approximately half of the \$770 million appropriated for bonuses in fiscal year 1989 had been awarded. To date, about 70 percent of total bonus awards subsidized wheat exports. The top recipients of U.S. agricultural exports under EEP as of March 1989 have been the Soviet Union, China, Egypt, and Algeria. Bonus commodities, either paid or approved, given to U.S. exporters to support sales in these countries were: Soviet Union

\$553 million, China \$344.5 million, Egypt \$310.5 million, and Algeria \$217 million.

DIFFERENT VIEWS ON EEP

There are widely divergent views concerning the need for the EEP today. Some view the program positively, while others are critical. On the positive side, the farm community overall sees the EEP as largely responsible for the increase in wheat exports over the last several years and views it as a valuable export assistance tool.

The administration views the EEP as a valuable trade policy tool which has encouraged the EC to seriously negotiate the liberalization of agricultural trade. It recognizes that the program must be used judiciously, given current market supply conditions, but strongly emphasizes that it must not be dismantled unilaterally. If market conditions were to change, the EEP could be used more aggressively, thereby increasing the costs of the EC export subsidy program. The administration maintains that eliminating the program now would send the wrong signal to the EC and others concerning the political will of the United States to liberalize agricultural trade.

Some critics charge that the program generates only a small, if any, increase in U.S. agriculture exports. They also question

whether subsidies are necessary, given relatively tight wheat supply conditions. Furthermore, some question whether supplies of U.S. commodities are adequate to support aggressive use of the EEP and whether U.S. domestic prices might not increase if the program is used too aggressively.

Critics also note that the EEP is counter to the U.S. position in the Uruguay Round that all support to agriculture which distorts trade be eliminated. Non-subsidizing competitors of the United States complain that they have been caught in the cross-fire of the subsidy war between the United States and the EC and that the EEP has caused world commodity prices to decrease, thereby affecting their revenues.

IMPACT OF EEP ON INCREASING U.S. AGRICULTURAL EXPORTS

In the last several years, U.S. agricultural exports have increased significantly. U.S. wheat exports increased from 25 million metric tons (mmt) in the 1985 crop year to 43.5 mmt in the 1989 crop year. The U.S. market share of world wheat and wheat flour exports increased from 29 percent to 42 percent during the same period. However, as discussed in our March 1987 report, an exact measure of how much of these increases were due to EEP is difficult to determine.

The effect of EEP cannot be isolated from that of other policy and economic variables which have contributed to increased agricultural exports. The Food Security Act of 1985 established lower loan rates as well as increased export assistance which contributed to the expansion of U.S. agricultural exports. Also depreciation of the U.S. dollar against major competitor currencies, production shortfalls, and other changes in global economic conditions contributed to the increase. Furthermore, the fact that the EEP is "targeted" adds more complications in determining its effect. For example, competing suppliers may respond by displacing potential U.S. sales in untargeted markets. Thus, while exports may increase in the targeted markets, the overall effect on U.S. exports worldwide is uncertain. If this happens, the use of targeted subsidies may merely reroute trade flows and total export volume would not necessarily increase. Moreover, when prices decline, it is unclear as to the extent that importers will buy more of the lower priced commodities or use the resources saved to buy other commodities.

With that caveat stated, EEP does appear to have been critical to making sales in certain markets--without it the sales would not have taken place--such as the wheat sales to the Soviet Union and China. During periods of surplus supplies on the world market, these importing countries took advantage of competition among exporters to obtain the best possible price and terms. Without EEP to make U.S. exports competitively priced, it is highly

unlikely that these sales would have taken place. Officials in Algeria, Egypt, Jordan, and Iraq told us that EEP was essential to enable U.S. exporters to make sales because these countries are "price buyers" (i.e. they buy at the best price available regardless of the source). They also noted that the availability of U.S. export credit guarantees was essential to making many EEP sales.

We have reviewed several studies that have attempted to measure the EEP's overall additionality. All of these studies estimate that U.S. agricultural exports have increased due to EEP but they differ on the magnitude. The additionality estimates range from 2 to 30 percent and are greatly influenced by the assumptions made and the time period covered.

THE EEP AND THE MULTILATERAL TRADE NEGOTIATIONS

When it was established, the EEP was viewed not only as a means for increasing U.S. exports but also as a means of encouraging U.S. trading partners, especially the EC, to begin serious negotiations on liberalizing agricultural trade. In our March 1987 testimony before the House Agriculture Subcommittee on Department Operations, Research, and Foreign Agriculture we noted that the EEP had exerted financial pressure on the EC and had reduced its grain sales in the Mediterranean region. We reported that the EEP, combined with the decline of the dollar and lower

loan rates, had increased the financial cost of the EC's export restitution payments and had contributed to realizing agreement to include agricultural subsidies in the Uruguay Round of multilateral trade negotiations.

In our March 1987 report, we concluded that the ultimate impact of the EEP depends, among other things, on how serious and sustained a commitment it represents. A prior U.S. attempt to match foreign export subsidies had not been sustained and the subsidizing competitor regained the market. The United States had countered competitor subsidies for wheat flour exports to Egypt in 1983 and had taken the market away from France. However, the United States did not renew the program in subsequent years and France regained its market share.

European and U.S. officials had contended that this demonstrated U.S. unwillingness to seriously challenge EC agricultural export subsidies. The U.S. approach had been criticized by U.S. agricultural interests as inconsistent and lacking in follow-up commitment. The gain in the U.S. share of the Egyptian wheat flour market proved to be temporary. Had the United States terminated the EEP after 1 or 2 years, the program would have been viewed as yet another indication of the lack of U.S. will to retaliate against unfair trading practices. Hence, abandoning the program could have adversely affected progress in the agricultural trade negotiations.

Most U.S. observers would agree that the program was instrumental in bringing the EC to the negotiating table initially, but there are diverse views as to its present utility in encouraging serious negotiations to liberalize agricultural trade. The outcome of the agricultural trade negotiations remains unclear, with the United States and the EC still disagreeing over the ultimate objectives.

As the market situation has changed with tighter supplies of wheat and other commodities, (i.e., as the price of commodities has increased), the EEP has been used relatively sparingly. Bonus amounts are significantly less than they had been in the early years of the program. EC restitution payments, similarly, have been significantly less than they were during the earlier period. EC officials told us that the EEP has had little effect in recent months in moderating their position on the agricultural trade negotiations. However, U.S. negotiators, including the U.S. Trade Representative and the Secretary of Agriculture, have reaffirmed the U.S. position that U.S. competitors should not expect any unilateral concessions by the United States. The Under Secretary of Agriculture for International Affairs and Commodity Programs stated in May 1989 that there was a continued role for the EEP. Whether the program is useful or not in the current market environment, the U.S. administration has made it clear that it is not going to give up the EEP unilaterally.

We also believe that the EEP's continued existence as a trade policy tool is important. If market conditions change, it could again be used aggressively, potentially increasing the cost of the EC's restitution program. More significantly, abandoning the EEP now would send the wrong signal to U.S. competitors, especially the EC, with whom we are negotiating on the liberalization of agricultural trade. The EEP has significant symbolic value in this regard. In addition to the direct impact it previously had in increasing the costs of the EC's export restitution program and thereby encouraging the EC to negotiate, the EEP appears to have had an indirect impact as well. To the extent that it has had an adverse impact on other competitors, including Argentina, Australia, and Canada, it has probably increased their resolve to push for a GATT agreement on agriculture trade.

IMPACT OF EEP ON COMPETITORS

Officials of Argentina, Australia, and Canada all claim that they have been adversely affected by the EEP, both in terms of lower prices for their commodities and reduced market shares. Australia has been the most vocal in its opposition of the EEP, stating that, contrary to the U.S. Department of Agriculture's stated intention of not harming non-subsidizing competitors, EEP has adversely affected Australian agricultural exports, especially wheat. However, isolating and quantifying the EEP's exact effects

on Australian wheat exports is difficult if not impossible. Australian government and farm industry representatives and U.S. Agriculture officials agree that EEP contributed to the depression of world wheat prices between 1985 and 1988 and, consequently, to the reduction in Australian wheat export earnings. There is no consensus, however, on the extent of repercussions of the EEP's price effects. According to Australian officials, Australia has lost market share and export revenue as a result of EEP, and wheat production declined as a consequence. According to U.S. Agriculture officials, on the other hand, EEP had only a minor effect on Australian export revenue and Australian production cuts were due to the rising profitability of wool production relative to wheat, not to the EEP.

EEP affected Australian wheat prices in two ways: (1) by providing bonuses in-kind from U.S. stocks, EEP increased total supply to the world market, thus reducing average world prices and (2) by providing subsidies on sales to targeted markets, EEP reduced prices in those markets, to the detriment of Australia and other suppliers, who were forced to match the subsidized price or lose market share. Australian wheat export prices fell about 17 percent, from about \$115 a ton in 1984/1985 to about \$95 a ton in 1987/1988.

According to Australian officials, the fall in export prices encouraged producers to move out of wheat production; plantings

fell from about 12 million hectares in 1984/1985 to about 9 million hectares in 1988/1989. Australian resources previously employed in grain production flowed into the livestock sector and into alternative crops, such as grain legumes.

Australian officials acknowledge that the EEP is only one of a number of factors, including declining world demand, reduced U.S. loan rates, and continuing EC subsidies, contributing to the decline in Australian wheat export earnings. In their opinion, however, the EEP has clearly had a significant adverse impact on Australian and other non-subsidized competitors' exports.

U.S. Agriculture officials believe that the EEP's effects on wheat prices were minimal to begin with and were mitigated by the Australian government's guaranteed price mechanism and the devaluation of the Australian dollar in 1985. They said that recent declines in Australian wheat production are more accurately attributed to historically high wool prices than to EEP. During the mid-1980s, wool prices more than doubled, luring farmers out of wheat and into wool production.

EVOLUTION OF EEP TARGETING

The EEP was designed to be targeted and discretionary rather than across the board. Proposals for EEP subsidies were to "target a specific market to challenge only the competitors who

overtly subsidize their exports." Originally the EEP's primary targets were countries that made significant purchases of subsidized EC exports. However, over time the program changed and expanded to include countries that had a small EC presence and then to countries where the EC was only contemplating a presence. As the EEP displaced the EC in one market, the EC turned to another country's market, making that country eligible for EEP benefits as well. The EEP grew from 4 targeted countries to 65 in 4 years, and has included 12 commodities.

Perhaps the most controversial aspects of targeting were the administration's decisions regarding the Soviet Union. That country was initially excluded from the program despite the fact that the EC's share of the Soviet wheat market rose from 5 to 22 percent from the 1981 to the 1985 crop year. Agriculture initially claimed that the Soviet Union was excluded because the non-subsidizing competitors had about a 48 percent share of the market in crop year 1985. Non-subsidizers, however, had equal or greater shares of other markets targeted under the EEP, such as Egypt, Iraq, Jordan, and Sri Lanka. Clearly the Soviet Union had been excluded until August 1, 1986, for foreign policy reasons. The Soviet Union was then made eligible for EEP sales and has since become the largest importer under the program. Critics have complained that U.S. government resources are being used to subsidize a U.S. adversary.

Country and commodity selection starts with a proposal that can come from an importing country, within the U.S. Department of Agriculture, agriculture trade organizations, or other sources. The proposal is submitted to the appropriate commodity division of the Foreign Agriculture Service (FAS) which examines how it meets the program criteria of budget neutrality, additionality, targeting, and cost effectiveness. The proposal is then sent to Agriculture's Under Secretary for International Affairs and Commodity Programs.

If the Under Secretary approves the proposal, the interagency review process begins. The proposal is sent to the Office of the U.S. Trade Representative which coordinates the review process, and then distributed to member agencies of the Trade Policy Review Group (TPRG)². Members of the TPRG informal working group are given a deadline for expressing concerns about the proposal; if the group's chairman does not receive any objections, the proposal is sent back to Agriculture and the initiative is announced.

Each initiative carries a fixed quantity. Once that quantity is filled under the program, additional quantities must be approved through the interagency process.

²The Trade Policy Review Group (TPRG) is chaired by a Deputy U.S. Trade Representative and is made up of Under Secretaries and Assistant Secretaries from the Departments of Agriculture, State, Commerce, Labor, Treasury, and Transportation; the Office of Management and Budget; the Council of Economic Advisors; and other agencies with interest in the topic under discussion.

When concerns or objections to the proposal are raised by members of the TPRG working group, representatives of the TPRG itself meet to discuss the problems. In the event that the TPRG cannot reach consensus on the proposal, it is forwarded to the cabinet-level Economic Policy Council (EPC)³.

PROGRAM OPERATIONS

The EEP's day-to-day operations are managed by FAS. EEP began as a small, focused, and temporary program and grew into a large, broadly applied program requiring more extensive resources to implement necessary management controls. Our ongoing review is examining a full range of operational issues. While our work is ongoing, we have identified some areas of concern.

Once the EEP began to expand to a larger number of countries, problems arose. We have found examples of markets that FAS appeared to have targeted inappropriately. In the case of dairy cattle to Indonesia, Australia and New Zealand were the only two countries to export significant numbers of dairy cattle to Indonesia in the last 40 years. Importers told us they never

³The EPC is chaired by the Secretary of the Treasury and is composed of the Secretaries of the Treasury, Agriculture, State, Commerce, Labor, and Transportation; U.S. Trade Representative; Director of the Office of Management and Budget; Chairman of the Council of Economic Advisors; Vice President; Assistant to the President for National Security Affairs; and White House Chief of Staff

seriously considered importing EC cattle, even though the Dutch were making offers. Bonuses for EEP dairy cattle sales in this country amounted to over \$19 million.

Countries which were traditional markets for U.S. agricultural exports became upset when they were not eligible to buy under EEP. They complained about having to purchase commodities at higher prices while other countries benefitted from subsidized lower prices.

According to the new Under Secretary for International Affairs and Commodity Programs, EEP is being used more selectively to target markets where the EC has a major presence. For example, in June 1989 a proposal went forward for EEP soybean oil sales to the Soviet Union. This proposal was not approved partly because the EC only has a 2-percent market share for soybean oil in the Soviet Union and an EEP sale would not hurt the EC.

Management of the EEP requires efforts in four major areas: (1) qualifying and registering exporters wanting to participate in the program, (2) setting minimum acceptable prices and maximum acceptable bonuses, (3) administering the bidding process, and (4) ensuring exporter performance. We are currently reviewing these four areas.

Our March 1987 report reviewed FAS methodology for determining minimum sales prices and maximum bonus awards for wheat, flour, poultry, and barley. FAS attempted to collect price information but Agriculture Department officials acknowledged that it was often difficult to obtain and verify this information for some commodities. Thus, the price-setting process involved considerable judgement.

We are currently reexamining the price and bonus-setting processes. The data collection efforts and methodology for price-setting can vary by commodity, partially due to the nature of the market and the availability of information and other factors, such as quality, packaging, processing, and transportation rates.

Some methodologies for determining minimum sales price and maximum bonus amounts have been revised during the course of the EEP. FAS has developed written procedures to document price and bonus determinations, but experienced judgement remains a key element in the process.

A concern raised during past GAO and Department of Agriculture Inspector General (IG) reviews was that bonuses exceeded amounts necessary to make sales. For example, the Dairy, Livestock, and Poultry Division was criticized for issuing bonuses often exceeding 50 percent of the value of the sale. FAS suspended the livestock program for several months to determine whether the

bonus levels were too high. Eventually the program was reactivated with bonus levels cut in half, and in early 1989 FAS cancelled the livestock program.

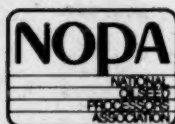
The difficulty in administering a program as complex as the EEP is reflected in the number of procedures required to manage program operations. These procedures range from ensuring conformance with criteria in targeting recipient countries to documenting that exporters deliver commodities according to their contract agreements. Past GAO and IG reviews have criticized the Department of Agriculture for its lack of internal controls over these procedures. FAS has established some procedures to ensure that program requirements are met and that exporters perform according to contract agreements. We are examining these procedures to determine whether they provide adequate internal controls, particularly verification of required documentation.

OVERALL OBSERVATIONS

In summary, EEP remains an important trade policy tool if for no other reason than unilaterally abandoning it would weaken the U.S. negotiating position with the EC. It could have greater importance in the future if market conditions change. The EEP has contributed to increased U.S. agricultural exports, particularly wheat, in many countries, including the Soviet Union, China, and those in the Middle East. The magnitude of the overall

additionality, however, is difficult if not impossible to determine because of the many factors influencing exports. In today's tighter wheat market, the program is appropriately being used more selectively.

Mr. Chairman and Members of the Subcommittee, this completes my statement. I will be happy to answer any questions you may have.



July 31, 1989

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The Honorable Dan Glickman
House Committee on Agriculture
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Dear Congressman Glickman:

Your continued interest in the successful operation of the Export Enhancement Program (EEP) is very much appreciated by the growers, processors and exporters of U.S. oilseeds and oilseed products.

Mr. Chairman, I'm pleased to announce that effective tomorrow, the name of our organization will change from the National Soybean Processors Association to the National Oilseed Processors Association (NOPA). This reflects our members' common interest in the total oilseed complex and the common public policy interests shared by the various oilseed processing sectors.

On behalf of the National Cottonseed Products Association, the National Sunflower Association and the National Oilseed Processors Association, I would like to briefly emphasize and highlight our collective views on the Export Enhancement Program, and how it might be used most effectively toward achieving U.S. trade policy goals.

As you well know, our industry's position on the need for EEP is one born of frustration from markets lost to unfair trade practices and legal remedies unsuccessful thus far in addressing our concerns. While EEP sales alone will not solve the problems facing our domestic oilseed industry--this will require efforts on a number of fronts--we have concluded that EEP sales of U.S. vegetable oil are a critical component of our overall efforts to regain our competitive posture in world markets.

As Congress and the Bush Administration begin to clarify and streamline the objectives and administration of the program, we believe trade policy objectives should again be front and center in directing the programs operation.

Given the critical role that exports play in the oilseed sector, success in fighting unfair trade practices in these product areas

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Secretary

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BROSE A. McVEY
Executive Vice President

on the part of our competitors, and specifically practices by the European Community, is essential.

Our industry has identified unfair trade practices on the part of the EC and others, and we have attempted to combat the negative impact these practices have on U.S. interests in a number of ways. These include both good faith efforts through appropriate legal channels, and trade policy remedies, such as the EEP for vegetable oils.

The American Soybean Association (ASA) has filed, and a GATT panel is now meeting to consider, a Section 301 complaint against EC domestic oilseed subsidies; and, the NSPA, representing U.S. processors, has a similar complaint on record against Argentine differential export taxes, which heavily subsidize the export of soybean oil and meal.

As these cases demonstrate, our industry is willing to pursue relief through all appropriate avenues. But, our competitors show no sign of letting up in their effort to capture our remaining markets and, as is evident by the lack of progress to date in our action against Argentine practices, we cannot afford to await a legal remedy.

Mr. Chairman, making trade policy objectives a top priority in administering the Export Enhancement Program suggests targeting the program at markets where export subsidies are most prevalent, and where our competitors have the most at stake. In both cases, this criterion points to the need for an aggressive use of the Export Enhancement Program in vegetable oils.

This goal is not supported by arbitrary budget or bonus limitations, as have been applied or are being considered at this time.

The scope of our program should be defined by the degree to which unfair trade practices exist in the world and affect our ability to compete, not by the budget. And, notwithstanding the serious budget constraints we now live under, we believe this should apply regardless of how the EEP is treated for budgetary purposes.

Now is the time in our opinion to be ever more aggressive in our efforts to compete internationally, and this should be reflected in our agriculture and trade policies. In regard to EEP, this should mean a well-targeted, hard-hitting use of the program during the next 18 months, not the hesitant, restrained approach we've seen over the past year.

This is not the time to second-guess ourselves, but rather, a time to redouble our efforts, with the explicit objective in mind of producing multilateral reductions in trade-distorting subsidies and import protection.

In contrast, our approach to date using EEP to promote exports of value-added products such as vegetable oil has been much more modest. For example, since the program began, EEP authorizations in the amount of 715,000 tons have been made, and somewhere in excess of 425,000 tons sold. **This compares with an average annual world trade in vegetable oil of over 12 million tons!** The EC's exports of rapeseed and vegetable oil alone amounted to over 6.2 million tons last year.

An EEP driven by trade policy objectives which target the heavily subsidized, value-added products has two other positive effects: first, it strengthens our negotiating leverage in Geneva; and second, it creates more economic activity and jobs at home per program dollar spent.

Finally, Mr. Chairman, I'd like to address two specific matters of concern to the U.S. oilseed industry. First, that this Administration and Congress should review and reestablish its policy toward unfair trade practices on the part of our South American competitors.

Our industry is sensitive to the difficult and complicated economic and political problems facing Argentina and Brazil, and those that face our policymakers in attempting to address them. But, we cannot ignore the impact unfair South American export practices in oilseed products have had on U.S. markets.

It has been the apparent policy of the last Administration, and I assume the current one, to avoid actions, including the use of EEP, which would have any adverse impact on South American markets for oilseed products. And again, given our close ties with those countries, we as a Nation should stand ready to be of assistance in bringing about economic stability in that region. This is certainly in the interest of the United States.

On the other hand, we as an industry cannot understand the lack of any U.S. effort to end unfair trade practices on the part of Argentina and others. Whether in connection with debt relief efforts, or through bilateral negotiations, or elsewhere, the U.S. should and has every reason to encourage trade practice reform on the part of Argentina, and other agricultural exporters

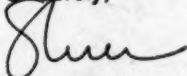
in South America. Our industry believes this would benefit both U.S. agriculture and economies of indebted exporters. The world market for oilseeds and oilseed products will accommodate and absorb their exports at market prices. Our "hands off" policy of ignoring these unfair practices will benefit neither party, and should be revisited.

Second, Mr. Chairman, the duty-drawback laws and regulations, which encourage the importation of subsidized South American oil and the substitution and re-export of U.S. oil with both duty drawback and USDA export assistance, must be changed if the EEP and other agricultural export programs are to function as they were designed. In cooperation with the Department of Agriculture, our industry will soon request your assistance in seeking a legislative remedy to this problem which has plagued the continued use of EEP for vegetable oils.

In summary, as the Administration and Congress reach conclusions on the future focus of the Export Enhancement Program, we take this opportunity to emphasize the devastating role unfair trade practices play in the oilseed products sector, and we call on Congress and the Administration to place a stronger emphasis on the use of EEP to achieve our trade policy goals of reversing this damaging situation.

Thank you for your consideration of these thoughts as you continue your review of this program.

Sincerely,



Sheldon J. Hauck
President
National Oilseed Processors Association

cc: Members of the Senate
and House Ag Committees
The Hon. Richard T. Crowder
The Hon. Ann Veneman
Philip L. Mackie, FAS

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